

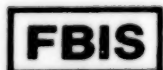
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China Report

ECONOMIC AFFAIRS

No. 5



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NATIONAL ECONOMIC POLICY

FORMING OF TRUSTS UNDER SOCIALISM DEFENDED

Beijing JINGJI GUANLI in Chinese No 2, 15 Feb 79 pp 22-24

[Article by Xiao Liang [2556 0081]: "Why Should Socialism Also Organize Trusts?"]

[Text] To accelerate the pace of the four modernizations, and to develop our national economy at high speed, we must study and learn all good forms and good methods of organizing and managing large-scale production even from the capitalist countries. "Trust" is a form of monopolistic organization of capitalism. It has various aspects of superiority in the organization of capitalism. It has various aspects of superiority in the organization and management of socialized large-scale production. To solve certain problems in our industrial management, around 1964 the central departments of industry and communications, with the approval of the Party Central Committee and the State Council, had trial run about a dozen specialized companies, which were then called the "trusts," namely the China Tobacco Industrial Company, the China Medicine Industrial Company, the China Aluminum Making Industrial Company, the China Rubber Industrial Company, the Beijing Electric Power Industrial Company and others. At the same time, some localities also operated a number of specialized companies, such as the Northwest Power and Machinery Company, the Shanghai Machinery and Electricity Company and the Chekiang Silk Goods Company. In spite of the fact that these specialized companies (trusts) had some shortcomings in their trial operation, they had, generally speaking, gained certain conspicuous results in fields of organizing specialized coordination and managing economy with economic methods, and effectively promoted the development of production. However, after the beginning of the Great Cultural Revolution, Lin Biao and the "gang of four" appeared as the ultra "Leftists," used the criticism of capitalism and revisionism as their excuse and stirred up a malicious wave of "smashing the trusts," so that most of these specialized companies were forced to close down. Lin Biao and "gang of four" created a false image suggesting that trust means capitalism, as if the classic writers of Marxism totally denied trusts, and as if socialism should not adopt trust as a form of organization. Is it really so? No!

(1) What Is Trust?

In capitalist economy, trust is a typical monopolistic organization.

In general, a trust is a large company organized by combining several enterprises producing similar products or by combining some enterprises closely related in production. Within the company, all enterprises are no longer independent in production, trade and law, and become factories and mines subordinate to the company. All affairs pertaining to production, marketing and the supply of raw material are under the unified control of the board of directors of the trust, with unified accounting of profit and loss and unified distribution of profits.

The characteristics of trust operation are the concentration of production, multiple undertakings based on specialized coordination, comprehensive use of enterprises, flexible and efficient operation of production by factories and mines under the unified control of the company, unified management of supply and marketing, clear responsibilities of personnel for economic accounting, emphasis on economic effect, planned production according to market demand and special attention to technical research. Therefore, it helps to save manpower, goods and material and financial resources, cut down the cost of production and raise labor productivity. In his supplementary to *Kapital*, Engels explained the allied caustic soda trust of England by saying: "This trust concentrated all caustic soda production in only one company. Individual factories--over 30 original owners--received shares on the assessed value of all investments, about 5 million pounds, as the fixed capital of the trust. Technical operation remained in the hands of the original people, but the leadership of business was centralized by the general management."¹ Today, in some advanced capitalist countries, trusts operated by monopolistic groups are run on a very large scale. Some of the largest ones have expanded their business of supply and marketing to other countries, and become international monopolistic organizations.

(2) Trust Is the Product of Socialized Production.

Trust was born around the 70s of the 19th century, and has made great progress in the course of transition from capitalism to imperialism. For instance, in the United States, there were 185 trusts in 1900, the number increased to 250 in 1907. Till the end of the 19th century and the beginning of the 20th century, all kinds of monopolistic organizations, including the trusts, had become the foundation of the whole economic life of the capitalist society.

Trust is the result of the ever developing socialization of production. At the same time, it is also the important material foundation for the certain advent of socialism. Besides, the development of socialized production is also inseparable from the centralization of production.

As we all know, competition and the anarchism of production are the general laws of capitalism. In free competition, large enterprises are naturally in a favorable position. As a result of competition, small fish are always swallowed up by big fish, so are the small enterprises by the large ones, so that the means of production, labor power and products of labor are more and more concentrated in the hands of a few large enterprises. Moreover, when the production of a certain branch of industry is in the hands of a few of the largest capitalists, instead of hurting one another in the competition, they must seek compromise and cooperation among themselves, reach an agreement and together control commodity production, the markets and sources of raw material to gain maximum profits. In this way, monopoly is born.

The emergence of trust under the capitalist system has promoted the socialization of production, because if the production of one or several branches is concentrated totally or mostly in the hands of a few large companies under unified leadership and according to plans, the socialization of labor will reach very high degrees. However, contradictions will become increasingly deep and acute between the socialization of production and capitalist ownership. Therefore, this capitalist organization of trust is "closer" to socialism, and proves that socialism will easily and naturally come into reality. In this *Kapital*, Marx had pointed out long ago: The incorporated companies are "the necessary point of transition" of properties of "producers who have joined together in the transformation" of "the process of reproduction, which up to this day is integrated with the ownership of capital."² Engels said that the trusts "have most encouragingly made preparations for the whole society, that is the whole nation, to do the exploitation in the future."³ Lenin said more straightforwardly: Production on such a large scale as the trust is the "socialization of labor as the principal material foundation for the natural advent of socialism....The socialization of production will naturally transform the means of production into social ownership, to 'exploit the exploiters'."⁴

The foregoing analysis explains that we should assume the attitude of dividing one into two toward the trust of capitalism. On the one hand, we must see that such monopolistic organizations as the trust are the product of seeking high profits on the part of the capitalists, which not only cannot overcome the antagonism between wealth in the nature of social wealth and that in the nature of private wealth, but also has developed this antagonism in morphology; on the other hand, we must also see that the trusts have created the method and organ of the scientific organization of labor and management of enterprise, promoted the socialization of production and motivated the social integration of labor. This is a kind of progress. What the proletariat wants to smash is the evil capitalist system of man exploiting man, not its method and organization of scientific management.

(3) Should not socialism operate trusts?

Under conditions of socialism, can the proletariat use trust as a form of

organization? Should not we learn from capitalists their abilities of managing economy and organizing trusts?

The answers to such questions were originally very clear. Marx said long ago that capitalist management is, in its content, two-fold, that is, on the one hand, it is a function stemmed from the process of social labor; on the other hand, it is the function of the process of exploiting social labor. If the proletariat has won political power and will build socialism not on a vacant land, it must fully use sciences, technology and the whole culture and all useful things left behind by capitalism. That is why Lenin had said: "If we understand clearly our task, we should learn socialism from the organizers of trusts....We have knowledge about socialism but nothing about organizing hundreds of millions of people....This subject we have never learned; therefore, we say that even he is a big impostor, so long as he has run a trust, so long as he has handled the production and distribution of hundreds of millions of people, so long as he has experience, we should learn from him. If we don't learn these things from him, we can't build socialism, and revolution will cease progress."⁵

As to why this form of organization of trusts may be learned, and why we should also organize trusts, the fundamental reason is that this form of organization has various superiorities in economy.

First, as everybody know, production on a large scale is superior to that on a small scale, concentrated production to scattered production, and combined production to individual production. What trusts represent is precisely the superiority of combined production on a large scale. Lenin had said: "The purpose of 'combination' is to set up a most perfect accurate and detailed accounting system, mainly to carry out joint operation in purchasing raw material and marketing products, and to practice economy in financial resources and manpower of the people. When scattered enterprises are combined into a syndicate, it can save a great deal. This is what economics tells us, and also what is explained by the examples of all syndicates, cartels and trusts."⁶ It can be seen that by organizing scattered enterprises together for joint operation and carrying out strict economic accounting, we can save greatly on manpower, goods and material and financial resources, and gain still greater economic effects.

Secondly, the organization of specialized coordination is the natural trend of industrial development at present. It not only facilitates the application of new achievements in science and technology, but also constitutes itself the natural force of social labor and is able to raise greatly the labor productivity. Moreover, only under the condition that specialized companies and complexes (trusts) are organized one by one according to trades and localities, can specialization and coordination be assured of their form of organization and carry on with planning and leadership. At present, trusts in some advanced capitalist countries are operated on a very large scale, but their subordinate enterprises are mostly fairly small. The reason is that they are promoting specialized production

within themselves and, at the same time, are working in coordination with outside units. Therefore, specialized coordination is the foundation of production organization of trusts. In addition, the organization of trusts has better facilities for multiple undertakings and comprehensive use, so that it can effectively enhance output, reduce cost of production and develop production at high speed.

Thirdly, trust is a large and independent economic organization. Internally, if there is centralized and unified leadership and unified accounting, it will be totally responsible for the results of its operation. Therefore, it will naturally minimize its structure, minimize red tape, flexibly regulate and direct its operation and successfully organize production according to economic laws. Lenin had instructed to widely set up trusts of various types in Russia. He said: "Each trust and enterprise is established on the basis of economic accounting, precisely because they will be held responsible for themselves, and completely, to make their enterprises avoid a loss. If they cannot do so, they should be prosecuted, I believe...."⁷ It clearly shows that this form of trust organization facilitates economic management with economic means, and makes the activities of production and operation of enterprises all the more comply with the requirements of objective laws.

Just as the trust organization has the foregoing various aspects of superiority, so Lenin gave it his high evaluation that it "regulates production in a planned way," it is "versatile" and "exemplary," and definitely proposed to "seize this ready-made form of organization" from capitalism,⁸ and to "learn socialism from the organizers of trusts."⁹ Lenin even said: "Only those who understand that without learning from the organizers of trusts we cannot create or practice socialism are qualified to be called communists."¹⁰ This explains that under socialist conditions, not only should we learn from capitalists their experience in managing and organizing production, but also we can entirely operate socialist trusts, and organize specialized companies and complexes of various kinds and types.

At present, our country has begun to reorganize industry according to the principle of specialized coordination. As a matter of fact, it means the operation of socialist trusts, that is, by means of this organizational form of specialized company and complex, to organize various scattered enterprises together, exercise unified control over their manpower, financial resources, goods and material, supplies, production and marketing, and develop production at high speed and high levels. It is of very great advantage to overcoming multihead leadership and decentralized control, changing the setting up of offices according to administrative systems, and making enterprises concentrate their forces to do production. This matter should be pursued positively in a planned way and step by step. The present problem is that while organizing specialized companies and complexes, some places did not proceed from realities and paid no attention to economic effect. Or else some people in the established specialized companies and complexes still considered themselves as a level of administrative organization, failed to introduce independent accounting, did not transform

themselves into enterprises, and did not take the whole responsibility for the results of their operation. We must conscientiously study related teachings of Marxist classic authors, act according to objective economic laws and solve practically these problems.

FOOTNOTES

1. "Complete Works of Marx and Engels," Vol 25, p 495
2. From "Complete Works of Marx and Engels," Vol 25, p 494
3. "Complete Works of Marx and Engels," Vol 25, p 495
4. "Complete Works of Lenin," Vol 21, pp 51-52
5. "Complete Works of Lenin," Vol 27, pp 270-272
6. "Complete Works of Lenin," Vol 25, p 334
7. "Complete Works of Lenin," Vol 35, p 549
8. "Selected Works of Lenin," Vol 3, p 315
9. & 10. "Complete Works of Lenin," Vol 27, pp 270, 324-325

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CSO: 4006

NATIONAL ECONOMIC POLICY

ZHEJIANG MODEL WORKERS CONGRESS URGES INCREASED PRODUCTION

Hangzhou Zhejiang Provincial Service in Mandarin 1100 GMT 9 Jul 79 OW

[9 July proposal by delegates to the Zhejiang Provincial Congress of Model Workers and Advanced Producers]

[Excerpts] Comrade workers and staff of the whole province:

All of us delegates to the Congress of Model Workers and Advanced Producers and workers and staff of Zhejiang Province have heard the reports by Comrades Tie Yang and Li Fengping and have exchanged advanced experiences. This has greatly educated and inspired us.

We propose the following: First, proceed from opposition to haste to expose contradictions, find shortcomings, map out plans and suggest measures accordingly and strive to achieve high output, fine quality, more varieties and reduce consumption. Workers and staff in all trades and professions must try in every way they can to economize on the use of electric power, fuels and raw materials. They should, on the basis of the original quotas, save coal by 5 percent and electricity by 10 percent.

Second, carry out the socialist emulation campaign extensively to emulate, learn from, catch up with, help and in turn surpass each other. Those enterprises which have long suffered losses due to poor management should make up the deficits and increase surpluses within the next 1-year period. There must be continued efforts to learn from daqing and dazhai, display the spirit of self-reliance and hard struggle and run all enterprises industriously and thriftily.

Third, vigorously promote the drive for reasonable proposals centering on tapping potentials, renovations and innovations.

Fourth, manifest the sense of responsibility of masters of the country to enthusiastically do a good job in our own work and actively take part in managing our enterprises.

Fifth, conscientiously study Marxism-Leninism-Mao Zedong thought and learn management, techniques and vocational work. Be courageous in practice, diligent in thought and good at (?supporting) the importation of advanced foreign technologies.

Comrade Hua Guofeng encouraged us by saying that Zhejiang is a good place and that things can be very good in Zhejiang as long as you make good efforts. We must rally closely under the banner of Mao Zedong thought and around the party Central Committee headed by Comrade Hua Guofeng. We must, under the leadership of the provincial party committee and other party committees at all levels, uphold the four basic principles, emancipate our minds, start up the machinery, seek truth from facts, unite and look forward, work with one heart and one mind, rise in vigor and make the greatest efforts we can to fulfill this great historical mission and greet our 30th national day with outstanding achievements in increasing production and practicing economy.

CSO: 4006

NATIONAL ECONOMIC POLICY

BALANCE BETWEEN PRODUCTION, DEMAND URGED

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] No 3, 15 Mar 79 pp 15-20

[Article by Liu Suinian [2692 7151 1628]: "We Must Make a Conscious Effort to Maintain a Balance between Socialist Production and Demand"]

[Text] In a socialist society, do we have to constantly maintain a balance between socialist production and demand? Why is such a balance necessary? How can we achieve it? These are major ideological questions that determine whether we need planned economy or not. They are also major pragmatic questions that determine whether the superiority of a planned economy can fully assert itself, whether an economy can develop at top speed, and whether a society can achieve stability. Since the founding of our people's republic, we have gone through a lot and at the same time learned many bitter lessons in trying to strike a balance between socialist production and demand. However, for various reasons we have somehow neglected to take stock on this point.

The Third Plenary Session of the 11th Party Central Committee decided that beginning this year our party will redirect its attention to socialist modernization programs. As the policies are being scrupulously implemented, the masses are experiencing a reawakened sense of socialist enthusiasm. Our task at hand is to organize well a new surge of construction activities, to insure a well-balanced development all around, and to strive for a constant balance between socialist production and demand. For this reason we must break away from our set ways of the past, follow the basic principle of Marxism and Mao Zedong Thought that calls for the verification of truths through practice, rationally and conscientiously sum up historical experiences, get to know the objective laws of economics better and use that knowledge to better advantage, and draw lessons from our work and do a good job at whatever we are doing. Here the writer wishes to offer his personal opinions on how to make it our habit to maintain a balance between socialist production and demand.

Rapid development of the national economy depends first on the political climate and secondly on two major economic conditions. The first economic

condition is the level of scientific and technological development. If we put great stock in science and technology, use new technology to the greatest extent in our production, and steadily increase our efficiency, economic development will speed up. If the reverse is true, economic development will slow down. The second economic condition is the level of economic management. If all sectors of the national economy develop in the right proportion, the socialist production will keep up with the demand. Then the economic development will speed up. If the reverse is true, the economic development will slow down. These two economic conditions are both indispensable.

A proper balance between socialist production and demand is vital to the smooth development of economy. This is because the nature of social reproduction demands it. Marxists believe that social production and social demand are mutually dependent and mutually producible. Because of that, the products for social consumption (including individual and productive consumption) generated by social production must come in the right proportions to meet the social needs. The labor force of society must be employed according to those proportions. If such proportions are contorted, the balance between social production and social needs will be upset. Reproduction in society will falter. The national economy cannot develop at high speed under those circumstances.

Under the capitalist system, the fundamental contradiction between production, which has a social character, and its end products, which are privately owned, always gives rise to discrepancy between social production and social needs. A balance between them is always precarious. Production generally limps through one crisis after another under the dictate of the laws of value. To correct this situation, the bourgeoisie has experimented with various methods. Most methods are designed to stimulate consumption and to increase demand. These methods have proved useful in a number of capitalist countries. Nevertheless, they have not and will not solve some fundamental problems. Overproduction, over-capitalization and insufficient utilization of productive forces remain as the major economic woes of the capitalist world. If these problems are not resolved, economic development will be hamstrung no matter how well developed the productive forces may be.

In a socialist society, the means of production are owned by the public. Exploitation inherent to capitalism and feudalism is gone. Social products belong to all the working people and the entire society. The contradiction between production, being a social activity, and its products, being private properties, is gone. Crises are no longer inevitable. However, the contradiction between social production and social needs is still present. Fortunately the proletariat is in power now and can gradually reduce that contradiction through the implementation of national plans. This is not to say that it will be easy to resolve that contradiction, to let the superiority of the socialist planned economy prove itself fully, to maintain a proper balance between social production and social needs, and to strive for stable economic development. Practice proves that it is not and that if we are not careful we are likely to bring great harm to our economic development, even set it back for years. We must review our economic development

for the past 20 or so years to see where we succeeded and where we failed and take pains to sum up our experiences. Such efforts will contribute greatly to the acceleration of our socialist modernization program.

During the course of our first 5-year plan, we did a splendid job.

Our socialist construction endeavors and improvement in the living standards of the people stimulated production. Expanded production, in turn, satisfied the needs. Production and demand proceeded hand in glove to result in speedy and stable economic development. Those 5 years saw the ratio of accumulation funds fluctuating only slightly between 23 and 25 percent. The scope of construction undertakings expanded steadily. People enjoyed better and better lives. Everyone was happy. Though some problems did crop up during the execution of the annual plans, they were solved in time. For example, heavy emphasis on capital construction in 1954 put some undue burden on the peasants and some strain on the economic life. Adjustments were made in the 1955 annual plan to correct it. 1956 again witnessed an over-expenditure on infrastructure and excesses in the size of the industrial work force and their payroll, and there was tension in the economic life. Immediate adjustments were introduced in the 1957 annual plan for remedy. As a result, problems never had a chance to pile up. In other words, as soon as the balance lapsed into imbalance, timely annual plans brought about a rebalance. This way the economy forged ahead.

The Second Five-Year Plan immediately headed into a stormy period lasting 3 years. In the first half of 1958, the whole nation, taking advantage of the 1957 adjustments and heartened by the general line of socialist construction, worked hard and in high spirits. Agricultural and industrial production thrived and construction work went into high gear. However, some questionable ideas began to take hold of the leadership. The subjective dynamic role of man was overplayed while the objective laws of economics received scant attention. The emphasis was now on fast results. Plans called for the doubling of the production of iron and steel within a year. The belief at the time was that "steel was the key link." If we could boost our production of iron and steel, we would have the initiative in our hands. To jack up the production of iron and steel, it was necessary to increase the output of coal and electricity and to improve the transportation system. It meant heavy investment in capital construction. Within a year the state doubled its investment in capital construction and raised the ratio of accumulation funds to more than 30 percent. The upshot was that supplies of steel products, coal and electricity got tight, the transportation system overtaxed, and investment hard to come by. Somehow, we failed to put two and two together and to see what caused this mess. Instead we argued loudly that the problem was in not having enough iron and steel. While the 1958 target for iron and steel production had been set unrealistically high, the ante was raised again in the 1959 annual plan, inflating the ratio of to more than 40 percent. The "leftist" trends prevailed in our economic field and should be corrected. Perhaps there were some attempts at correction but they were unsuccessful. Then the anti-rightist sentiments at the Lushan Conference

added fuel to the fire and aggravated the situation. The 1960 target for iron and steel production went up some more. The annual plans for those years repeatedly laid undue emphasis on steel, coal, electricity, and transportation to the neglect of everything else. As a result, the construction of heavy industries was not in keeping with realistic needs and the supplies of means of production equipment became tight. The means of production and work force that had been employed in light industries and agriculture were shifted to heavy industries to keep the latter going. To make matters worse, a gust of communist wind blew over rural communities. Misdirection, overly heavy procurement of produce by the state, and natural calamities conspired to reduce agricultural and light industrial production to an unprecedented low level. This gave rise to a wide gap between production of consumer goods and social needs. Staple and non-staple foods were in short supply. Light industrial products and daily commodities were scarce. There were times when cooking pans and hair pins were hard to get. Once agriculture, light industry and heavy industry were in disarray proportionately, social production could no longer keep up with social needs. The economic mechanism broke down. People suffered hard times. In 1960, the Soviet revisionists broke their promises and reneged on their words. More hardship ensued. Heavy industry and the national economy as a whole sank into a low ebb. Even steel production did not hold up. This episode taught us a hard lesson. Awakened to the unfolding catastrophe, we began in 1961 to scrupulously implement the guideline of the party Central Committee on "adjustment, consolidation, replenishment and expansion." We cut down on our capital construction and heavy industry commitments, thinned out the ranks of industrial staff and workers, and reduced the urban population. We resolutely followed the policy of stable prices on basic necessities. At the same time, we raised prices on candy, pastries and on restaurant menus so that the state could redeem some cash being circulated. We shored up our support to agriculture, cottage industry and light industry. We achieved a rebalance on a readjusted level between the now swollen social needs (mainly the needs of heavy industry and capital construction) and social production. Economic difficulties eased. Economic development regained momentum. In 1966, before the Great Proletarian Cultural Revolution was to begin, the economy was in a robust state, as everybody would agree.

As soon as the Great Proletarian Cultural Revolution got underway in 1966, agricultural and industrial production stopped growing because of the devastation of Lin Biao and the "gang of four." In 1969, the production of many essential agricultural and industrial items still remained at the 1966 level. Fortunately capital construction was kept to a minimum at the time and the social wealth accumulated during the years before the Cultural Revolution still held the economy afloat. As a result, the ratio of accumulation funds remained at the low level of between 21 and 22 percent. The economic life was free from any noticeable tension. In 1970, some policies were properly implemented. Weather conditions were favorable. Agricultural and industrial production picked up again and state revenues shot up. Despite such favorable conditions, Lin Biao and his sworn followers ignored realities, committed all resources to the development of military industry, and gave crazy orders here and there. Some of our comrades also became hotheaded. They ignored objective conditions and feasibilities. All they wanted was action. In many

sectors they asked to see production doubled in a short period. They set up various crash programs to achieve their goal. Their priority was steel iron and steel. They had no concern for the living conditions of the people. They greatly stepped up capital construction and introduced many new programs. The upshot was that the ratio of accumulation funds once again exceeded 30 percent. Supply of the means of production became tight. The number of industrial staff and workers skyrocketed. By 1972, the size of the industrial work force, the total amount of industrial payroll, and state acquisition of food staples set "three records." To make matters worse, agricultural production dropped. Another serious imbalance between social production and social demand recurred. Comrade Zhou Enlai called attention to this problem in time to have some adjustments written into the 1973 annual plan. The situation improved somewhat. In 1974, the "gang of four" launched its destructive campaign to criticize Lin Biao and Confucius. In 1976, they again fanned up a movement to beat back the right deviationist wind of reversing verdicts. They pushed the economy to the brink of total collapse.

What we went through in those years is proof that in our socialist China, social production can keep in constant balance with social demand and our economy can develop at a brisk pace, like in the years of the First Five-Year Plan and its related adjustments, if we follow the correct line, adhere to the correct leadership philosophy, uphold democracy both in and out of the party, base our action on facts, and respect objective laws of economics. Likewise, an imbalance between social production and social demand will occur if we fail, like in the first 3 years of the Second Five-Year Plan and during the Great Proletarian Cultural Revolution. The imbalance, unlike in capitalist countries, manifests itself mostly in the form of a lag of production behind needs which the society can pay for. Its symptoms are: There is money but nothing to buy. State buyers are seen busy running here and there trying to fill their procurement quota. There are lines for every commodity as a result of panic buying. Everyone is stuck with a growing stack of coupons which he cannot use. Practice has proved that a situation like that is detrimental to economic development and often starts a vicious circle. The disparity between production and demand, the disruption of cash circulation and the shortfall in material and commodity supplies will inevitably lead to the following consequences: abuse of manpower as the labor force is employed not according to the needs of society, an unbalanced growth of the various sectors of the economy, a glut on some commodities and a shortage of others, a lack of coordination among agriculture, light industry and heavy industry as components of the economy, overextension of the manpower on the capital construction and production fronts, a rise in the number of half-finished projects and an increase in the inventory of half-finished products, a slowdown of capital turnover, a decline on the returns from investments, use of defective, off-grade or even useless products out of helplessness, disinterest in trying out new technology or improving quality in products, abuse of the use of things in the case when main machines are stripped for parts, when small things are used as substitutes even though larger sizes were required, and when poor quality products are used even though higher quality was called for, a rise in barter trade, an enlargement of the disparity

between state regulated prices and market prices, growing opportunities for new bourgeois elements, speculators and racketeers to take advantage of the chaos, and encouragement of the bad habits of "using the back door" and "pulling strings."

What we are concerned about here is why in China we are faced with a recurrence of the problem of the failure of production to keep up with demand, hence an imbalance between production and demand. What has caused this problem? Why are we so slow in tackling it? What is behind all this?

First of all, we must blame the subjectivism and one-sidedness in our approach. We are anxious for quick results and blind to the objective laws of economics. The imbalance between social production and social demand reflects disproportion among agriculture, light industry and heavy industry, or, in other words, disproportion between what is held back as reserves and what is made available for consumption. The direct cause for the various setbacks in past years, when reviewed in the light of economic significance, can be attributed to a one-sided emphasis on heavy industry, especially iron and steel, and a one-sided emphasis on reserves. We must realize that the relationship between reserve and consumption and that among agriculture, light industry and heavy industry is one of "the unity of opposites" and one of mutual dependence. If we see only the conflicting forces, and not the unifying forces at work, if we assign our priorities without regard to the organic links between, and if we promote one at the expense of the other, we are heading for trouble. To make matters worse, some of our comrades are careless and undemocratic. When they make plans and set production and construction targets, they normally do not make exhaustive investigation and study beforehand. Nor do they make extensive consultations. It is not their habit to think twice or thrice, to ponder all the options, to weigh all the advantages and disadvantages. As a result, they make errors of judgement on important issues. They do not see problems when they first arise, and when they do see them, fail to come up with quick solutions.

Secondly, we must blame the lack of a matter-of-fact approach to problems and the failure to press on with the struggle between the two lines. In the past 2 decades, people have criticized errors to the right but seldom the unrealistic leftist tendencies on the economic front. They regard "being left" a matter of thinking but "being right" a matter of political stand. There is widespread "right-phobia." If someone who raises the target a bit higher, plans more projects, and thinks big, he is praised as "having a capacity for work" and "being dedicated to revolution." On the other hand, if someone is matter-of-fact and tells it as it is, he is criticized as "lacking enthusiasm," a lazy bone, a cynic, even a rightwing opportunist. This mentality has prompted a large number of our comrades to jump on the "leftist" bandwagon, to talk big, and to plan big, knowing that they will not be held responsible for doing that. When the situation calls for a cutback on projects and a curb on demand, the same comrades will go and hide themselves, for fear of being accused of making an error to the right.

Thirdly, there is a problem of over-centralization of authority in management. A case in point was in 1956 when the socialist reform of agriculture, cottage industry and the formerly capitalist-owned industry and commerce had more or less been completed. At that time all orders had to come from officials in charge and there was no effective system to hold them in check in the event of mismanagement. These men in charge often failed to exploit the law of value, the forces at the marketplace, and economic means to their best advantage. Furthermore, the system of complete state control over financial revenues and expenditures tied the hands of local authorities and enterprise management bodies and placed the responsibility of the economic balancing act entirely on the central government. At the central government level, the management structure was ill-defined. Where there was authority, there was no responsibility. One person would make one commitment. Another person would make another commitment. One person would promise to support one enterprise. Another person would promise to support another. All the commitments and promises would add up to production goals which were impossible to fulfill. The inevitable outcome of a system in which planning for production and construction starts at the top and works its way down and in which the state buys up everything that is produced and resells it is a pre-determination of what is available for sale by what is being produced. With such a system, the things that are produced are not necessarily what are needed, part of the state revenues give a false picture of what are needed, and part of the state expenditures are wasted on phantom needs.

Fortunately, the economy is currently in a robust state. Everyone is enthused about working to better the economic showing. We must relish this fine hour. Our experience has demonstrated that even in the best of times we must be on our best alert and remain cool. We must form a conscious habit of developing the various sectors of the economy in their right proportions and maintaining a constant balance between social production and social demand. To achieve this goal, the writer, confining himself to economic matters only, wishes to offer the following 7-point suggestion:

1. We must accurately evaluate the economic factors and make a realistic projection on production.

If we wish to solve the contradiction between production and demand, we must put the accent on production. We cannot go very far if we concern ourselves with only the distribution end without any thought to developing production. To stimulate production, we must encourage competition. We must promote science and technology. We must pay attention to education, management, and how to bring immanent forces into full play. In this respect, we should show more initiative than the capitalists. To tap the immanent forces, the industries should do their best to improve quality, to reduce waste, to step up labor productivity, to conserve raw materials and fuel supplied by the state, to cut down on transportation needs, to produce according to needs thereby tying production to demand, to hold down reserves, and to speed up capital turnover. Our primary, fuel and power industries are still not large enough to satisfy the needs of a country of China's size and international prestige. They need to be developed further. However, in our

present industrial structure, our fuel and power industries are already quite substantial. Our problem is a high wastage. In any foreign country that produces 30 million tons of steel, 600 million tons of coal and 100 million tons of crude oil, there will be more cars, ships, airplanes, and chemical and light industrial products than in China. We must do something about the high wastage or we won't see any fast growth in our production. Let us get to agriculture. The communique issued by the Third Plenary Session called on the entire party to concentrate on shoring up our agriculture. Agriculture is indeed a weak link at present. We must pay special attention to formulating sensible agricultural policies, arousing peasants' enthusiasm for production, improving the productivity of the rural work force, and stimulating agricultural production.

After taking into consideration all related factors, we must come up with an accurate forecast of production growth in both the agricultural sector and the industrial sector. If the forecast is too low, actual production will exceed the targets by far to cause a glut of goods. That is not good for production. On the other hand, if the forecast is too high, the nation will be under great pressure to fulfill the targets. It will be like repeating the mistakes of the past, mistakes of disrupting the balance between social production and social demand. Present conditions in China will allow an annual growth of 9 to 10 percent in industrial production and an annual growth of 4 to 5 percent in agricultural production as long as we maintain a moderate ratio of accumulation funds and try to get the best use out of such reserves. We must not underestimate such growth rates. It will be no mean feat to maintain a steady growth at such rates year after year. We must strive for balanced production. While we are aiming at that goal, we must be sure not to overemphasize one sector at the expense of other sectors. Such overemphasis will inevitably jostle one sector or another for reason of readjustment or reassessment, such emphasis must be moderate and temporary.

2. We must set the right ratio between reserves and consumption.

Consumption is a condition for reproduction. Without consumption, products cannot serve the purpose of being products and production will halt in its tracks. To stimulate consumption, we must promote production and, accordingly, raise the ratio of accumulation funds. However, reserves must be set aside at such a rate as to insure growth both in consumption as a means of livelihood and in consumption as a means of production, like growth of two organs in a living body, so that Marx' goal of "the employment of social work force proportionately" can be achieved. Unless we can work out the right ratio between accumulation funds and consumption and set aside the right amount of reserves, we cannot hope for a balanced development of agriculture, light industry and heavy industry, nor a balance between social production and social demand. At present, the average income in China is still low. The masses still experience some hardship in their livelihood. A continued emphasis on heavy industry and high ratio of accumulation funds are upsetting the balance between social production and social demand. We must use our discretion to hold down such a ratio. Our experiences in the past seem to favor a ratio of not more than 30 percent as being in keeping with our current

productivity. Social demand as it reacts to production expresses itself mainly as consumer needs. Consumer needs are the driving force behind production. Discouragement of such needs will affect the enthusiasm of the masses for production and the function and growth of social reserves. We must never again build our economic planning around heavy industry and iron and steel production. The idea of building heavy industry for its own sake and pushing steel production for its own sake will force social production off course, tip the ratio between reserves and consumption off balance, throw agriculture, light industry and heavy industry out of proportion to one another, and widen the gap between social production and social demand. We must never again waver on this question. It must be pointed out here that the concept of planning social reproduction according to consumer needs does not imply that consumer needs will be encouraged to grow unchecked. That is not the case. Consumer needs must grow within the limits set by the capacity of reserves to withstand such growth and by production growth. In other words, the rise in consumer needs must be tied to the rise in production. Excessive growth in consumer needs is also harmful to the development of the national economy.

3. We must show aggressiveness and exercise caution at the same time as we undertake various construction projects.

We cannot succeed in our Four Modernizations Program unless we set ambitious goals for ourselves, give our imagination a free rein, and act aggressively. On the other hand, we must also exercise caution when we are dealing with day-to-day problems. We must carefully evaluate every request and every suggestion which we receive, and deal with each of them in the order in which they are received. If a project looks good, we endorse it. If a project does not look good, we cut it. We must not be afraid to displease some people. When we come to major construction projects, we must then review them as a group rather than individually and take action that is right for them as a group. We must evaluate them in the light of how they will interreact with the projects that have preceded them, the projects that will follow them, and the projects that are going side by side with them. We must also evaluate them in the light of both immediate and long-term benefits. We must not aim for a temporary satisfaction. If we do, we will see that temporary satisfaction ends in dissatisfaction and lose our initiative at the same time. The communique of the Third Plenary Session of the 11th Party Central Committee pointed out: As far as manpower and resources permit, we must aggressively launch one project after another in the area of capital construction. We must concentrate on one project at a time, just like fighting a battle of annihilation. We must not start a whole lot of projects all at once and then find ourselves stuck with wasteful unfinished projects. This passage sums up well our lessons from history. We must act accordingly.

Another thing is that we must always leave ample leeway in each project, especially a long-range project. There are always unanticipated developments. If a project is cut so fine as to allow no room for maneuver, it will fall on its face as soon as something unexpected comes up, to result in financial

losses. Our experiences indicate that if we leave some cushion in our projects, we do not lose control if it becomes necessary to make amends later. However, if we leave gaping holes in our projects, we lose control altogether when we are forced to the painful decisions of having to make cuts. Some people consider gaping holes a challenge and imbalance a fact of life. Practice has proved them wrong. When we say leeway in long-range projects, we mean flexibility to reset production goals and construction pace to suit the circumstances. By the same token, we must also leave a cushion and an escape hatch in our annual plans. We cannot get the economy going smoothly with our two bare hands.

4. We must be practical, businesslike and deal with facts. We must be quick to readjust when problems arise.

We must accept the fact that an imbalance between social production and social demand does occur quite frequently. The thing to do is to keep close tabs on the situation. We must watch closely the material flow, the cash position, and the credit and loan situation. We must keep tabs on the inventory fluctuation. When we see a problem, we correct it right there and then. First of all, we must aim at an overall balance between social production and social demand. That means national income, state spending, bank credit and loans, and foreign trade are all in a healthy state. Generally speaking, we should avoid a deficit in our budget. As soon as the state budget and the balance-of-trade with foreign countries lapse into the red, we must immediately resort to the double-barreled method of increasing revenue and cutting expenses. Secondly, we must maintain a balance between paper money and goods, or, in other words, provide material backup for our currency. Thirdly, we must achieve the balance in a positive manner. For instance, if production should outrun demand, we should stimulate sales rather than hold down or even cut back on production. We must see that in our country production will generally and perennially lag behind the demand and overproduction at any time will only be temporary. Unless a product is known to turn over very slowly in the long process of social reproduction and no immediate increase in its demand is anticipated and, furthermore, there is no export market for it, we should not hesitate to cut back on its production. When the demand for a product is larger than its production, our first attempt should be to increase its production. If that attempt did not succeed, we should then turn our attention to how to hold down the demand in a businesslike manner. We should cut demand where a cut is in order. That is also a positive approach. Let us not attempt something impossible. If we do, we will inflate the social needs, thus doing more harm. At present, we seem to be spread thin in the area of capital construction. Many projects will not be completed for quite some time, tying up a great deal of the state capital funds. We need consolidation in this area. If we consolidate, we can concentrate better on fewer projects and put them on a footing of war of annihilation, get better returns from our investment, and shape the various sectors of the national economy into better proportions.

5. We must intensify our struggle between the two lines. We must struggle against both the right and the left. We must struggle against "right-phobia." Economics is a complicated subject. Limited by our personal knowledge, we usually see only one side of a problem. Therefore, in conducting our business, we must do our utmost to create a political atmosphere in which other people can freely speak up. More importantly, we must encourage others to disagree with us and listen to them closely. We must not come to any discussion sessions, where project indexes and project scope are under debate, with pre-conceived ideas on what suggestions automatically belong to the right and what automatically belong to the left. We must let our experiences from practice tell us which is right and which is left. Comrade Mao Zedong once said: If we fail to do what can and should be done, that is rightist conservatism. If we do what cannot and should not be done, that is blindness. That is leftist adventurism. We must struggle against both extremes as they are detrimental to revolution as well as construction. Our experiences in the past 2 decades prove that our impetuosity and impulsiveness of forcing production to meet demand, without any hope of success, has wreaked great havoc to our national construction. We must avoid the same mistake. That boils down to a scientist's attitude of going by facts.

To further clarify this point, the writer wishes to take a second look at two historical incidents that came under criticism. One was the question of a "saddle type" economic development in 1957. In 1956, the economy was in good shape, except that the capital construction was a bit heavy and the work force diverted to industry was a bit oversized. In 1957, the pace of construction eased up a little to enable the economy to catch its breath. Under those circumstances, an adjustment of the pace was totally justified. It was in fact demanded by the economic realities of the time and to make that adjustment showed a respect for facts in policy making. Subsequent events were to prove that such adjustment did not wreck the economy. On the contrary, it introduced a coordination never before experienced into the economic picture. Without the adjustment in 1957, the excellent economic showing in 1958 would not have been possible. Blind to this larger picture, people scathingly criticized the "saddle type" of 1957 as the result of an error in "counter-adventurism." That was a one-sided story. Because of this incident, the mistakes made in the years after 1958 could not be corrected in time to avoid an even larger "saddle-type" economic development that was to take shape.

The second incident was the adjustment made in 1961 and 1962 to the economic programs. In order to bring the overall economy out of the doldrums, some capital construction projects were dropped. Some heavy industries were closed down. Some were suspended. Some were converted to other purposes. That was a wise and courageous decision. Soon after that things began to look up. In the process of making cuts here and there, some oversights and mistakes could not be avoided, but they were of minor importance. These were seized upon by Lin Biao and "the gang of four," who, during the Great Proletarian Cultural Revolution, heaped blame on the 1962 retrenchment movement. Lin Biao and "the gang of four" were totally wrong. They had an axe to grind. Even to this day some comrades are still confused and apprehensive

on this issue. They "turn pale" at the mention of the word "adjustment," at the mention of dropping or suspending some projects which are dragging on with no completion date in sight and which have turned into "a war of attrition," and at the mention of closing down some enterprises experiencing high waste, turning out shoddy goods, and eating away at our socialist economy for years and years. We must clarify this point and free our comrades from their mental shackles.

6. We must reform our current system of economic management.

We must follow the resolution of the Third Plenary Session of the 11th Party Central Committee and revert the situation of over-centralization of the power of planning. We must boldly delegate more authority to lower administrative levels and let local governments and agricultural and industrial enterprises enjoy more independence in their operation within the framework of state plans. We must strengthen our economic accounting system. We must discontinue centralized procurement and distribution. We must respect the law of value, give freer rein to market forces, and permit competition. We must see to it that the financial prosperity of each department, each locality, each company, each factory and each mine is in direct proportion to its performance. We must pay for the use of state funds. In short, every individual must do his share in promoting production and expanding supplies. It is not right to give the state the entire burden. This is a very complicated matter and we may have to discuss in separately.

7. We must find a scientific method of balancing.

In a socialist society, we rely mostly on planning as a way of balancing social production with social demand. This raises a question: what method to use to achieve a balance. Right now we do have a balancing method, but it is quite imperfect. For instance, if we are to balance social production with national income, we must familiarize ourselves with the method of simple mathematical balancing, we must train people in the use of calculating machines when they are involved with the balancing aspect of the national economy, we must improve our statistical work. We must compile statistics based on various constant factors. In short, we must concern ourselves with more and more details in our economic work. We must not be satisfied with just a few rough figures.

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NATIONAL ECONOMIC POLICY

'NANFANG RIBAO' ON INDUSTRY'S SUPPORT FOR AGRICULTURE

Guangzhou NANFANG RIBAO in Chinese 6 Jul 79 p 1 HK

[Commentator's article: "Do a Good Job in Industrial Readjustment, Support Agricultural Production--On Unfolding the Movement To Increase Production and Practice Economy in a Comprehensive and Thorough Manner"]

[Excerpts] The enlarged third session of the provincial party standing committee and the three-level conference of provincial, prefectural and county cadres recently called by the provincial party committee earnestly studied the work of readjusting the national economy in our province. It was unanimously agreed that the most pressing problem currently confronting us in our province is that of correcting the serious imbalance between agriculture, light industry and heavy industry so agriculture can be promoted rapidly. The promotion of agricultural production depends on our policies, work style, scientific technology and management as well as materials support. Not only does this call for greater efforts within the agricultural sector, but also sets a new task before the industrial and communications fronts--to be sure to readjust industrial production in accordance with the requirements for promoting agriculture, comprehensively and thoroughly unfold the movement to increase production and practice economy, provide the agricultural sector with more financial and material support and make new contributions to accelerating socialist modernization.

The interference and sabotage by Lin Biao and the "gang of four" over the past years has brought on the imbalance between different sectors of the national economy. As far as economic planning is concerned, the order of priority has been heavy industry, light industry and agriculture instead of agriculture, light industry and heavy industry. Things were not done according to objective laws but according to subjective wishes. As a result, the capital construction front was overextended and no one attended to the development of agriculture and light industry. This in turn affected industry itself--shortages of funds, raw materials, fuels and power led to the situation in which "three people had only one bowl of rice to share," a passive state where none of the sectors really got developed. To change such a situation, it is imperative to resolutely carry out the principle of readjusting, restructuring, consolidating and improving the national economy.

Against the practical background of our province, we must determinedly shorten the capital construction front; unswervingly drop some of the long-term projects and add some short-term ones; resolutely halt all those projects which are economically irrational, which we are not yet capable of handling or for which the necessary conditions have not ripened; and concentrate our manpower, materials and finance to ensure the rapid completion of key projects which enjoy close relationships with agricultural production, such as the key projects in the power, transportation and fuel sectors, to enable them to play their role. At the same time, we should make full use of our province's favorable conditions--the variety of industrial crops here, the long history of the light industry, close proximity to Hong Kong and Macao as well as its flourishing foreign trade--adopt special measures to speed up the development of textiles and other light industries, provide more financial support for agriculture and achieve the aim of supporting agriculture and heavy industry with light industry earnings. These are the most effective measures to take in unfolding the movement to increase production and practice economy, and represent the most powerful support for our agricultural production.

We recommend some competition among our socialist enterprises. We must adopt the principle of providing materials to the enterprises on a selective basis and giving priority to the best enterprises when making all kinds of arrangements. We must ensure sufficient supplies for enterprises with high outputs, low rates of consumption and whose products are of good quality and sell well on the market; we must set deadlines for the improvement of all enterprises whose outputs are low, rates of consumption high, and products do not sell due to inferior quality; and shut down, merge, suspend the production of, or even reorient those enterprises which show no sign of improvement in performance after we try to straighten them out. In this way we can spur our enterprises to make vigorous efforts to increase production and practice economy, and put an end to the kind of situation under which backward enterprises become a drag on the four modernizations and do not contribute anything to socialism.

One of the most fundamental methods to produce true results in the movement to increase production and practice economy is to fully mobilize the masses of the people. The mass line is our party's fundamental line. In order to persistently and thoroughgoingly unfold the movement to increase production and practice economy, we must be sure to fully arouse the masses to action, expose contradictions, discover where we fall short and pool everyone's wisdom to find ways of improvement. As normal production order and systems of management have yet to be fully reestablished or put back on a sound footing, there is currently quite a lot of waste. Some enterprises waste large amounts of fuels, power and raw materials while they loudly complain about shortages of such items. That explains why we must be bold in mobilizing the masses and exposing all forms of waste. Some comrades think that the masses will, after getting mobilized, "drive" the leadership "into a corner" and bring trouble to them. This only reflects these comrades'

mistrust of the masses. As has been proven by the experiences of enterprises which have done a good job in the movement to increase production and practice economy, everyone, from the leading comrades to the ordinary members of the staff, will see the educative role of the movement to increase production and practice economy and more practical measures for that matter will be introduced once the masses begin to act and expose existing contradictions in work. It is not true that the leadership will have a hard time if the masses are mobilized; on the contrary, the leadership finds it easier to conduct supervision and enjoys closer contact with the masses. When everyone whole-heartedly seeks to promote production, it will not be long before our enterprises take on a new look.

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NATIONAL ECONOMIC POLICY

'NANFANG RIBAO' STRESSES STOCKTAKING, AUDITING

Guangzhou Guangdong Provincial Service in Mandarin 2330 GMT 13 Jul 79 HK

[Report on NANFANG RIBAO 14 July commentator's article: "Take Stocktaking and Auditing as the First Battle in Rectifying Enterprises"]

[Excerpts] The article noted: The mass movement to increase production and practice economy on Guangdong's industry, communications and capital construction fronts has now been deepened. In the movement to increase production and practice economy, all places should take stocktaking and auditing as the first battle in rectifying enterprises. They should strive to tap the potentials of materials and capital and clear up all overstocked materials and excess circulating capital so they may be used in production, construction and support of agriculture. They should make full use of the materials and capital.

The article said: Because of the interference and sabotage of Lin Biao and the gang of four, the idea of "eating rice from a common pot" was common in the past few years. As a result, there has been very serious confusion in managing enterprise materials and capital. On the one hand, there is an inadequate supply of materials and equipment needed for production and construction; on the other, many important materials have piled up and a large quantity of equipment has remained idle. Moreover, some materials have suffered from serious rusting and damage because it has not been properly taken care of. This has caused great waste and has even opened the gates wide to embezzlers, grafters and speculators.

Material departments must establish various special materials dispatch networks as quickly as possible to institutionalize dispatch and regulation work. For those materials which are not procured by business departments, all enterprises must actively launch marketing work. Those municipalities and counties which are able to do so may also set up all kinds of display and sales points and hold material exchange meetings. They must do everything possible to make full use of the overstocked and piled-up materials.

The NANFANG RIBAO commentator's article said in conclusion: To fully launch the work of stocktaking and auditing means to conduct a large investigation

and study on the management of enterprises. The task is difficult, the involvement is great and there are strong policy implications. We must strengthen party leadership and give free rein to the masses. The provincial authorities have not set up an office for stocktaking, auditing and turning deficits into profits. On the basis of gaining experiences through trial points this year and next, they have decided to do well in promoting this work by stages and groups. All prefectures, municipalities, counties and fronts must adopt corresponding measures and strengthen their leadership over this work and work hard to do well in promoting it.

CSO: 4006

ECONOMIC PLANNING

MANAGEMENT SYSTEM OF DISUNITED PRODUCTION, SUPPLY, MARKETING MUST BE REFORMED

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 4, 25 Apr 79
pp 14-16 HK

[Article by Yang Lei (4692 1060): "The Management System of Disunified Production, Supply and Marketing Must Be Reformed"]

[Text] The number of workers and the amount of equipment in our nation's bearing manufacturing industry rank first in the world. However, the variety and quantity of our production lag far behind the advanced countries. Among the many reasons for this, backwardness in management is by far the most important. From our experience in planning the production of bearings, we fully realize that the dislocation caused by the independent management of production, supply and marketing has obstructed the development of production. This has also brought much inconvenience to consumers.

1. The disunity of production, supply and marketing has brought production into a state of blindness. The socialist production process is developed according to plans and proportions. Production plans must be formulated according to actual needs and adjusted according to the changing needs of society. It is especially so with a product such as bearings which have many applications and varieties and are produced in large numbers. The production departments must constantly survey and study the needs of the national and international situation and have a direct understanding of the concrete demands of the consumers to insure that the varieties produced really satisfy actual needs and demands.

However, the prevailing practice is for the production planning departments (originally the Bureau of Motor Vehicle Bearings of the First Building Ministry) to arrange their production according to the total demand established annually by resource departments. In this way, planning is done without concrete knowledge of the consumers and their demand, without knowledge of the degree of urgency and by relying only on a general figure which is not very reliable. Therefore, it is difficult to achieve harmony between production or to deliver goods on schedule. Since the production departments are preoccupied with satisfying the annual demand,

fail to firmly grasp the changes of the actual situation and make forecasts, the circulation of products has become critically short in some periods and sluggish in others.

There are as many specifications to the various varieties of bearing products as there are to the materials needed. Since the supply of raw materials is dispersed vertically from upper level resource departments down to the lower level material departments, there is much alternation as they come down the hierarchy. This not only results in failure to meet production targets, but also in constant failures to meet the specifications. To fulfill production tasks, enterprises have resorted to reducing sizes, altering the standards or using substitutes. Another alternative is to produce the kind of goods dictated to by the raw materials provided. This creates the phenomenon of "deciding the kind of products by the available raw material." This wastes a tremendous amount of labor and valuable steel fruitlessly, brings about disastrous results, low utilization rate of raw material and high production costs and does not guarantee that the required goods are produced. In the long run, this would ultimately disrupt national planning.

In the past, this kind of management has revealed its detrimental effects on the development of production. Today, it has become a serious obstacle to the establishment of the All-China Bearing Company.

2. The power of the material department is overconcentrated. Centralization is so rigid that it strangles the development of production.

According to the requirements of the "regulations of the Central Bureau of the National Resource Department concerning the management of second class machinery and electrical products" issued jointly by five departmental committees on 23 December 1978: "All the resources for the production plans of second class machinery and electrical products departments are to be under the centralized management of the China Machinery and Electrical Equipment Company." With the exception of departments in charge of distribution, no area or department is allowed to utilize or retain anything without permission. Production enterprises are not allowed to sell anything, including excess products and by-products, without permission. With regard to key-point enterprises, the resource department "sent special agents to the factory to examine the actual production situation, promote the fulfillment of the production plan, grasp hold of the resources of production and supervise the carrying out of state contracts." Originally, this was meant to be the routine work of the Department of Production Management and the enterprises themselves. However, this was taken care of by the Resource Department by sending agents to the factories. This is highly unfavorable to mobilizing enthusiasm from the various quarters. It only breeds bureaucratism and creates chaos in the management of resources. For example, the bearings produced by the Luoyang Bearing Factory had to be turned in to the Resource Department for

distribution. Even the bearings required for the maintenance of the factory itself were not to be retained and the factory had to apply to the central bureau of the Resource Department for an allotment. The allotment had to be transferred from the first resource depot in Wuhan back to the factory. What was originally the product of the factory had to travel such a long way back to where it belonged. Such back-flowing of resources is indeed a very common phenomenon.

The special equipment of the bearing manufacturing industry is also distributed by the resource departments. Since they did not understand the amount and degree of urgency of the needs of the enterprises, they resorted to methods of wide dispersal of resources, widely dispersing through the resource channels of the province, district and county. Despite the fact that there was a large amount of equipment produced each year, the result was that the really key-point enterprises which needed the equipment very much did not receive them while those unimportant enterprises which produced poor quality products and consumed a great deal received all the equipment. Such a resource management system has no positive effect on the development of production.

3. Overlapping organization and plenty of red tape. We are now practicing the method of "railway patrol," each in charge of a specific section. The resource departments assign the needs and the work required. From top to bottom, there is a hierarchy of organizations and personnel, a variety of application forms, collective reports, investigations and balanced dispersals and so forth. In order to arrange for good annual plans, the production departments have to understand the actual needs which require a definite number of personnel and forms. For excellent long-term planning, the planning departments also need a certain number of personnel to collect and arrange the materials needed. Since there are several centers of leadership, the difference in perspectives and demands lead to several chains of command.

Let us look at it from the perspective of the procedures involved in application, collective report, investigations, balance, dispersal and division. At the county, district and provincial level, each has to report upward to the level immediately above or transmit downward to the level immediately below. At each level, there are a variety of forms to fill out, such as application forms for necessities, fixed account forms and forms for specifically assigned seats and so on. On the average, each form contains 10 to 20 items. The local units spend a large amount of human and material resources to fill out these forms, but when they reach Beijing, they are put aside without being opened and sent to the paper mills at the annual clean-up. This is really an unnecessary drain of the nation's manpower and financial resources.

The distribution and transmission of orders depends very much on various types of conferences for the arrangement of production and investigation

or resources and also on two conferences for ordering goods. (Attendance ranges from a few thousand to over 10,000 people. The production departments must entertain the conferences called by the resource departments which results in a lot of wasted time. However, the pace for solving problems is very slow. Since there are so many departments, levels and procedures, there is a constant shifting of responsibility to one another due to the emphasis on channels and procedures. In addition, problems may drag on due to differences of opinion. This is the cause of many long-term unresolved problems which are really manmade.

4. With disunified production, supply and marketing, it is impossible to organize centralized planning, a reasonable division of labor and a speedy development of production.

The very nature of bearing products requires organized central planning and a reasonable division of labor for their development. Types not in great demand in the provinces may be produced by the state in a concentrated manner in intermediate or large quantities. Such items can be produced by special equipment with high efficiency. The production lines can be organized to produce items of excellent quality, high yield and low consumption. Requiring the various locality to manufacture complete sets of equipment locally will only result in poor quality, low yield, high consumption, high production cost and failure to meet the required standards for goods. Even in the present situation, it is still possible to coordinate the production of nationally and locally planned products; that is, small types of small local demand can be supplied by the state in large quantities. This is beneficial to the development of production. This kind of coordination and division of labor will reduce any unreasonable duplication of the same varieties of product and increase the overall output. This is welcomed at both the provincial and municipal level. However, such an arrangement is impossible since the distribution and allocation authority do not reside with the production departments and there is also the management method recently formulated.

This management system which separates production, supply and marketing makes the resource departments the actual governors of production. However, it is impossible for them to allocate properly since they do not have an adequate understanding of the production situations. At times certain arrangements actually create problems for the enterprises. The production departments have lost their initiatives to develop production and have become passive and blind followers.

In conclusion, after judging all the odds, the present system of disunified production, supply and marketing must be reformed. I think it is necessary for the All-China Bearing Company to centralize production, supply and marketing under the centralized planning of the state. The All-China Bearing Company should consider the items to be imported according to the varieties and quantity needed both within and outside the country. Based on the production plan, it can secure close links between

production, supply and marketing, securing definite markets for the products, "determining the amount of production according to market demands" and "deciding on the amount of raw material according to the needs of production."

Furthermore, it should make sure that the production plans are based on a reliable material foundation so as to guarantee balanced production, avoid suspension of work due to an inadequate supply of raw material, and avoid dislocation among production, supply and marketing. The various kinds of raw materials and special equipment required for production should be centrally balanced by the state and allocated by the All-China Bearing Company. The various regions and departments may, at any time according to their particular needs, directly order from the All-China Bearing Company. In this way, the company can directly understand and grasp hold of the actual demands and attain a clear understanding of the situation, precise planning, less overstocking, speedy turnover, high efficiency, low production cost, high quality, low consumption, simple procedures and quick supply so as to promote the development of the bearing industry and satisfy the needs of the four modernizations.

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ECONOMIC PLANNING

NEI MONGGOL CITY REORGANIZES LOCAL INDUSTRY

Hohhot Nei Monggol Regional Service in Mandarin 1100 GMT 10 Jul 79 SK

[Text] Baotou Municipality has reorganized its local industries on the principle of coordination among specialized departments. This has provided favorable conditions for gradually changing the backward management system and methods to cope with modern industrial development.

After the third plenum of the 11th CCP Central Committee, the Baotou Municipal CCP and revolutionary committees on several occasions analyzed and studied the history and current situation of local industrial production. They felt that the striking problem of local industries was the backward management system and methods. They found that many "big and all-embracing" and "small but all-embracing" factories were reluctant to make improvements, that their products were generally of poor quality and few in varieties, that production costs were high and that operations were economically inefficient. This problem seriously hampered the development of production and was quite incompatible with the work of modernizing industry. Therefore, they decided to reorganize local industries, starting this year, on the principle of coordination among specialized departments and in a planned and step-by-step way.

In January, the municipal CCP and revolutionary committees organized comrades of the economic commission and the capital construction commission of this municipality to make inspection tours of Nanjing, Shanghai, Jinan, Tianjin, Beijing and other cities for the purpose of learning from their experiences in reorganizing industries. In February, a leading group for reorganizing industries was officially formed under the municipal CCP committee. It was decided that the work should be carried out in the following three stages:

1. The relationships between some enterprises should be readjusted according to the trades to which they belong. To facilitate the management of different trades, specialized companies and general plants should be established. This will solve the long-standing problems of multi-leadership and decentralized management in enterprises.

2. According to the needs of coordination among specialized departments, the companies and general plants should make proper arrangements for the division of labor and for coordination among the enterprises under their jurisdiction. The companies and general plants should function as economic organizations exercising unified management of manpower, funds and materials and of production, supply and marketing.

3. The principle of coordination among specialized departments should be carried out extensively among different companies and trades. Efforts should be made to solve the basic management problems in production, supply and marketing in each trade.

Baotou Municipality proceeded with the reorganizing of its industries step by step, doing the easy jobs first so as to gain experience for doing the hard jobs later. In the first half of this year, the municipality established 12 specialized joint companies covering the textile, plastics, woodcraft, rubber, electronics, paper-making, printing, leather and fur, garments and other industries. Also established was a general plant for the production of valves. These companies and this general plant formed capable working bodies for formulating plans for coordination among specialized departments and for readjusting the enterprises with emphasis on expanding or reducing their scopes, merging them or transferring some of their work to others. In July, these new companies and this general plant have commenced their internal and external work.

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ECONOMIC PLANNING

PROBLEMS IN THE PLANNED MANAGEMENT OF ECONOMY OWNED BY THE WHOLE PEOPLE AND THE ORIENTATIONS OF REFORM

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[Article by Ho Jianzhang [0149 1696 4545]]

[Text]

I

In our country, the prevailing system of planned management of the economy owned by the whole people was mainly learned from the Soviet Union in the 1950's. The system has been reformed several times since then but, on the whole, it has not broken out of the confines of the old Soviet system of planned management, that is, laying emphasis on the administrative method in managing the economy instead of really doing things according to economic laws and managing the economy in economic ways. This system of planned management is bound to bring a series of insurmountable contradictions to the socioeconomic life and will hinder the rapid growth of the socialist economy. The main problems are:

1. The State Exercises Too Much, Too Thorough and Too Rigid a Control; Enterprises Lack the Right To Take the Initiative in Operations and Management

The communique of the third plenum of the 11th party Central Committee points out: "A serious defect in the system of economic management in our country is the overcentralization of power. We should boldly delegate power to the lower level in a guided manner and let the localities and industrial and agricultural enterprises have more right to take the initiative in operation and management under the guidance of unified state plans." As we know, the Soviet system of planned management in the 1950's onesidedly stressed highly centralized, unified leadership of the state over the national economy. All state enterprises owned by the whole people were placed under direct state leadership and management. From top to bottom the state sent mandatory planned targets to enterprises and, under unified plans, organized the supply of the means of production needed by the enterprises. The products turned out by the enterprises were procured by the state supply and commercial departments.

The prices for most products were fixed by the state under unified plans. All the profits made by the enterprises were delivered to the state, except a portion which was retained as a factory superintendent's fund. The greater part of the depreciation funds were also delivered to the state. When carrying out major repairs to their fixed assets, the enterprises concerned were only allowed to maintain the original design standard without increasing their value or changing their appearance. Before carrying out reconstruction and expansion, the enterprises concerned had to apply to the state for investments. If an enterprise wanted to proceed with technological innovations, it had to map out a capital construction plan and send it to the higher level for approval. This Soviet way of doing things was in the main taken over by us. In 1956, Comrade Mao Zedong criticized this method of overcentralization. But, Comrade Mao Zedong's criticism did not arouse adequate attention. Even to this day there has been no change in the state of affairs in which the prescribed rights of enterprises concerning production-supply-marketing, personnel-property-supplies, plans and technology are still concentrated in the hands of the state and all operations and activities of enterprises are subordinate to state arrangement. This was particularly true when the "gang of four" ran wild, when even the system of retaining some percentage of enterprise profits was done away with, and the prescribed rights of enterprises were not enlarged but were reduced further. This method of management tied the hands of enterprises and resulted in extremely undesirable consequences.

To begin with, enterprises have no right to make their plans or market their products. Social production is divorced from social need.

Under the prevailing system of planned management in our country, the state (including central and local departments of economic management) sends down mandatory planned targets, level by level, and enterprises have no right to make their own plans. The state plan is not the result of coordination carried out from the bottom, level by level, but is drawn up by the higher organ of economic management. Such a plan often proceeds from the requirement of the rate of economic growth for a year and a definite period. The so-called rate is the percentage of growth of the total value of production. Of the eight targets for evaluating the results of enterprise operation and management in our country, labor productivity, profit and revolving funds are connected with the total value of production, which is virtually "the father of the emperor." This prompts enterprises to produce for the sake of the plan and to strive for an increase in production value, irrespective of whether the items produced meet the social and market needs. At the same time, as the production target for an enterprise is set by the state, its products should naturally be accepted by the state under the system of state monopoly for purchase and sale. This brings about a method of supply management and commercial operation such as "sell what is produced," that is, the state purchases what the enterprises produce and the enterprises sell what the state procures. This system of planned management, which is

divorced from the actual needs of society and the market, will necessarily lead to a situation in which unnecessary goods are produced and are stockpiled and wasted. According to estimates, by the end of June 1978, the commodities and supplies on hand in various departments throughout the country were equivalent to the total value of industrial production for the first half year. The losses incurred in disposing of these commodities and supplies was estimated at nearly 100 million yuan, including several tens of million yuan worth of commodities and supplies written off as loss and waste. On the other hand, many items needed by society, including means of production and means of subsistence, are in short supply. To be sure, there are many reasons for this state of affairs, but an important factor is that production and sale are separated, mandatory targets are sent down and enterprises have no right to draw up and revise their own production and sale plans flexibly according to market needs and sales of products.

Further, since enterprises have no right to regenerate their fixed assets, technological development becomes stagnant.

The prevailing depreciation rate of fixed assets in our country is low and, moreover, the greater part of the depreciation funds are delivered to the state. Regeneration of fixed assets are entered into the capital construction plan which is to be submitted to the higher level for approval. Frequently, what is approved cannot meet the need. The basic depreciation rate of fixed assets of the Anshan Steel Company is 2.92 percent. Even if all of this depreciation fund is retained by the enterprise for regenerating its equipment, it will take 34 years to complete a cycle of regeneration. Yet, according to the prevailing provisions, 50 percent of this fund set aside by the enterprise must be delivered to the state, which means that it will take 68 years to complete a cycle of regeneration. Further, some relevant documents stipulate that two-thirds of these funds must be used for making innovations, carrying out transformation and tapping the potentials, and 20 to 40 percent must be used for solving the problem of environmental pollution. Thus, the amount of funds available for regenerating equipment is extremely small. Since the enterprise cannot depend on state capital construction investment it can only drag on year after year. A certain machine tools plant had an old machine tool from the 1950's which had undergone major repairs twice in 10 years and more. The efficiency of the machine tools of the same type produced in a certain locality was three times that of the old machine tool. The plant figured out that if the old tool was repaired again the cost would be enough to buy a new one. But the plant had no right to deal with the matter. They sent a request to the department concerned to write off the old tool and buy a new one. The reply was: "The utility of things should be exhausted. We cannot consider writing off the old tool and buying a new one." (WEN HUI BAO, 8 February 1979) In short, since enterprises have no right to regenerate their fixed assets, the technological equipment of many enterprises has not undergone any change for many years. This state of affairs is not compatible with the

task of realizing the four modernizations and catching up with the world's advanced technological level.

Further, enterprises have too little financial rights and lack the economic dynamic to develop production.

What we have long been practicing is a system of enterprise finance marked by unified receipt and unified expenditure. The profits of an enterprise must be delivered to the state, and enterprises are to be subsidized by the state to make up for their losses. The income of enterprises and staff is not linked to the results of an enterprise's operation and management. This results in an irrational phenomenon of eating from the same pot, irrespective of how enterprises are managed and of profit or loss. In the past, this state of affairs was seen as a concrete manifestation of the superiority of the ownership by the whole people. Actually, it runs counter to the material interests of enterprises as the collective and dampens the enterprises' enthusiasm for their operation and management. In addition, the enterprises have too little financial resources for emergency use, thus limiting their ability to do things according to the economic law. In the last 2 years, Beijing No 1 Machine Tools Plant delivered profits to the state, averaging 33 million yuan a year, but the plant has the right to keep only 50 yuan for emergency use. Activities of production cooperation costing more than 50 yuan require approval from the municipal office of cooperation, and accounts must be settled through the local bank. There are many things that would cost less and get more results if enterprises were allowed to do them themselves. However, they cannot be done because they do not conform with the financial provisions. Such things are "rational but not lawful." On the other hand, there are things which would cost more if they were done according to the financial provisions but would cost less if enterprises were allowed to do them, but the enterprises have no right to do them. Such things are "lawful but not rational." All this is unfavorable to increasing the economic results.

Lastly, as they have no right to dispose of supplies and the labor force, enterprises cannot exhaust the utility of things nor put man to best use.

We are now putting into practice a system of planned transfer and distribution of supplies and labor force. Enterprises have no right to dispose of idle supplies and surplus labor power. This plus the system of appropriating enterprise funds including fixed revolving funds without compensation leads to a situation where funds are tied down, more job hunters exist than there are jobs, and enterprise labor productivity is lowered. In 1977, for example, state-owned industrial enterprises in Beijing had fixed assets amounting to several hundred million yuan or 3.6 percent of the total value of fixed assets, which were not used or needed.

As a matter of fact, the higher leading organs cannot possibly know everything about the concrete conditions of enterprises, and they assume no economic responsibility for the results of enterprise operation and management. The overcentralization of power lends itself to the growth of bureaucratism and reliance on the "chief's will." It runs counter to the law of objectivity and disregards efficiency and results. The urgent task now is to enlarge the prescribed rights of enterprises and allow them to really enjoy the right to take the initiative in operation and management.

2. Simultaneous Management by the Central and Local Authorities Was Not Adapted to Objective Economic Connections

After two major reforms our system of planned management has taken the form of "unified planning and management at different levels." The first reform was carried out during 1958 when the prescribed rights of provinces, municipalities and autonomous regions to manage the economy were enlarged. At that time, both the departments in charge of industry, whether they were light or heavy industry, and some nonindustrial departments (grain, commerce, and so forth) were required, in principle, to transfer their enterprises to localities for management, with the exception of some important, special enterprises and some "experimental" enterprises which remained under the management of the central authorities. By the end of 1958, 87 percent of the enterprises directly under the central authorities had been sent down, and the supplies provided by the central authorities according to unified plans had also decreased by 75 percent compared with 1957. Simultaneous with this, to resolve the contradiction between the central and local authorities and integrate the central authorities overall plans with localities' overall plans, a system of "double track" planned management was put into practice throughout the country. That is, on the one hand the competent departments at the central authorities had to make overall plans for the enterprises under their charge and for the enterprises of the same type under the charge of the localities. On the other hand, provinces, municipalities and autonomous regions had to make overall plans for all enterprises under the charge of the central authorities and those under the charge of localities in their areas. On this basis, the State Planning Committee and the Economic Commission summed up and balanced the plans drawn up by the two sides and mapped out the national plans. During the 3 years of economic difficulties, emphasis was laid on unified leadership and centralization of power. The four rights concerning personnel, finance, industry and commerce previously delegated to the lower level were readjusted. In 1963, the enterprises directly under the central authorities and the supplies distributed by the central authorities according to unified plans had mainly been restored to 1957 levels. Concerning planned management, the competent departments of the State Council mainly assumed the responsibility for drawing up plans for enterprises and undertakings directly under them and also for comprehensively drawing up regional plans for the enterprises and undertakings (except the munitions industry)

directly under the central authorities and for the enterprises and undertakings subordinate to localities. When dealing with problems of regional equilibrium, the central departments had to consult the localities concerned for solutions. When dealing with national economic problems that concerned various departments, localities had to consult the central departments concerned. Without approval of the central authorities and the State Council, no department or locality was permitted to assign tasks outside the plans to the lower level.

The second major reform was carried out during 1970 when elimination of "exclusive control by the central authorities" was proposed and a comprehensive idea was suggested concerning system reform. The reform consisted mainly in sending enterprises down, trying out the system of letting enterprises assume full responsibility for their own capital construction, distribution of supplies, financial receipt and expenditure, and adopting the method of drawing up plans under the centralized leadership of the central authorities, "from the bottom up, through joint efforts of the higher and lower levels and through the joint efforts of the central authorities and localities with emphasis on localities." Subsequently, the central departments (excluding the munitions industry department) sent almost all enterprises directly under them including the Anshan Steel Company and the Daqing oilfield to localities for management. The products distributed by the central authorities according to unified plans during 1972 decreased by 61 percent compared with 1966. Plans were still mainly drawn up from top to bottom. Although localities were asked each year to draw up their plans and express their opinions on the draft plans of the state, they were seldom accepted. After the "gang of four" was struck down, centralized, unified leadership was stressed and enterprises were taken back successively to overcome the state of partial planning and partial anarchy. During 1978 alone, nearly 1,000 units were changed into ones under central leadership, including enterprises and undertakings led by the central authorities along with production and scientific research units directly supported by the central authorities. The products sent down to localities for management were in the main taken back.

The above state of affairs shows that our country's system of planned management has in the main gone through a process of two releases and two withdrawals. These reforms mainly readjusted the prescribed rights to manage the economy between the central and local authorities within the administrative organs of the state. They were confined to the question of whether to send enterprises down or to take them back and whether the local or central authorities should exercise more control. A revolving phenomenon appeared--"control is followed by stagnation, release by disorder, disorder by control and control by stagnation again." The fundamental reason for this is an attempt to solve economic problems through centralization or decentralization of power in administrative management, that is, an attempt to rely on administrative stratum, division and facilities to manage the economy. This does not conform

with the objective connections inherent in economics. Consequently, it cannot fundamentally solve the problem.

Our country has several hundred thousand industrial enterprises placed under central and local management (in some cases, they are also placed under management at several levels--municipality, administrative district and county under the province). Approval has to be obtained from the management organ at the higher level before doing anything, either large or small. The enterprises under a central ministry and under a province are so numerous and so far away that they cannot be managed efficiently or at the right time. As a result, bureaucracy prevails, official documents go from one place to another and meetings are turned into disasters. What is more serious, this system of management is likely to cause various departments and areas to form their own systems, adopt an isolation policy and create artificial confines, turning themselves into out-of-bounds areas and cutting off the rational connections inherent in economic activity. Take the technology of "dacron" polyester fiber for example. The technology abroad has developed to the extent of continuous condensation and direct reeling, which dispenses with the process of granulation before reeling. However, because our industry is managed by administrative departments and because foreign exchange is allocated by administrative departments, the chemical industry department is only allowed to buy the technical devices from condensation to granulation while the textile department is only allowed to buy devices from granulation to reeling. This excludes the continuity of advanced quality in introduced technology. As a further example, Jiangsu Province has a good industrial foundation and, with a slight increase of investment, could rapidly increase its production. The First Ministry of Machine Building wants Jiangsu to increase production of cars, tractors and internal combustion engines to aid other provinces. But Jiangsu Province is mainly under local management and, if production is to be increased, investments must be increased. The First Ministry of Machine Building is willing to make investments, but this is in contradiction to Jiangsu's system of assuming full responsibility for its own financial receipts and expenditures. Only after Jiangsu lowers, through consultation, the percentage of retained profits, can the central departments make direct investments there. More problems arise from the allocation of supplies because raw materials and semifinished products are also "allocated" according to localities. If you have investments but no supplies, money is still of no use. Thus, management with emphasis on localities is in contradiction to bringing local production capacity into full play to aid other provinces. In short, enterprises are managed by the administrative system, whether it is in the hands of central or local authorities. If they are centrally managed, the connections between various trades are severed, resources are used exclusively for what they are intended, multipurpose development is not done, multipurpose utilization is not realized and one department is not willing to use its investments to do things for other departments. Arguments are frequently made over cooperation between various departments. They pass the buck for things that should be done,

thus wasting much valuable time. If enterprises are managed by localities, connections between different localities are severed. On the one hand, advanced areas and advanced enterprises do not have enough to eat and cannot bring their production capacity into full play. On the other, backward areas build a number of technically backward enterprises. All departments and localities go after the large and the complete, the small and the complete, and the self-sufficient. This runs counter to the social division of labor, to developing specialized cooperation and to raising the economic effect.

To sum up, under the prevailing system of planned management, enterprises lack the right to take the initiative in operation and management, whether they are managed by central or local authorities. Under such conditions, so-called business accounting for enterprises and accounting within the scope of the national economy as a whole can only enjoy a reputation unsupported by facts. It must be pointed out that none of this is caused by the socialist economic system. On the contrary, the socialist system has eliminated exploitation and made it possible to bring the enthusiasm and initiative of workers into full play and to operate and manage enterprises with success. The socialist system has also eliminated the shackles formed by departmental and regional monopoly under the system of private ownership of the means of production and made it possible to expand cooperation extensively between departments and between areas. The problems found in the original system of planned management are caused by not gaining a deep knowledge of the law of socialist economy and not doing things according to economic laws.

II

Under the Soviet system of planned management enforced in the 1950's and the prevailing system of planned management in our country, things have not really been done according to economic laws, mainly the law of value. This has its deep ideological and social roots.

With regard to the ideological root, for a long time we denied that the socialist economy was a commodity economy, denied the regulative role of the law of value and overlooked the use of market and the law of value to serve the socialist planned economy.

Is the socialist economy a commodity economy or not? Practice has answered this question. The socialist economy is a commodity economy in a special form. With personal goods sold by the state to office and factory workers being commodities, relations of commodity exchange therefore exist not only between the system of ownership by the whole people and the system of ownership by the collective, but also between enterprises owned by the whole people. This is determined by the characteristics of the internal economic relations themselves under the system of socialist ownership by the whole people. In the past, we often viewed the question of ownership purely as a question of who owns the means of

production. It was held that inasmuch as the means of production in the hands of enterprises are owned by the whole people, their products are also owned by the whole people and that since the exchange of products between enterprises does not involve transfer of ownership, the products do not constitute commodities. This view is not correct because it lacks a concrete analysis of the characteristics of the system of ownership by the whole people. Marx viewed property relations as the sum total of social relations, saying: "To define the bourgeois right to property is nothing but a description of the total social relations of bourgeois production." (Marx, "The Poverty of Philosophy," "Collected Works of Marx and Engels," Vol 4, p 180) It is by examining the possession, use and control of the means of production from the whole process of production, exchange, distribution and consumption that "capital" illustrates the bourgeois right to property. In the case of the socialist economy owned by the whole people, although the state reserves the last right to control the means of production, yet it is the individual enterprises and economic organizations that directly possess, use and, within the scope prescribed by the state, control the means of production. The masters of these enterprises and economic organizations are united laborers, not isolated producers or capitalists. But the work of these laborers has its essential distinction. Labor is still the means of making a living and society cannot but tacitly admit this working ability as a "natural privilege" and recognize their individual material interests. By the same token, society cannot but recognize the collective material interests of the laborers united in enterprises. These individual and collective material interests determine the necessity of carrying out all-round accounting in the whole process of production, exchange, distribution and consumption. That is, it is necessary to strictly calculate the magnitude and quality of labor contributed by each laborer, examine the economic effect of the means of production owned by the whole people and possessed, used and controlled by each enterprise. On the basis of this calculation and accounting, it is necessary to determine the economic interests of individual laborers and the collective enterprises. Thus, the "whole people" in the system of ownership by the whole people are divided into different individuals and collectives whose interests have distinctions. This is different from the "whole people" at a higher stage of communism where the essential distinction of labor has disappeared, distribution is made according to needs and contradictions no longer exist in material interests between the individual and the collective. In other words, compared with communist ownership by the whole people, socialist ownership by the whole people is an imperfect ownership with distinctions between individual and collective interests. These characteristics of socialist ownership by the whole people determine that the operation and activity of enterprises owned by the whole people are closely connected with the collective and individual interests of laborers. In exchanging their products they must observe the principle of exchanging equal values. In a certain sense, through the process of exchanging, the right of ownership of products is also transferred. In the relations of exchange between

enterprises owned by the whole people, the basic law of commodity economy--the law of value--still acts. This action is bound up with the individual and collective material interests of the laborers and has the distinctive feature of a commodity economy. Therefore, socialist ownership by the whole people, namely, the sum total of socialist relations of production, determines that a socialist economy is also a sort of a commodity economy. It is on this foundation that we put planned management into practice. In other words, a commodity economy and a socialist planned economy are not alien to or exclusive of each other. On the contrary, a commodity economy is the foundation of a socialist planned economy. To be sure, what we have put into practice is a socialist planned economy and not another planned economy of any kind. We must observe the requirements of the basic law of socialist economy and the law of planned and proportional development of the national economy. At the same time, we must base ourselves on the requirements of the objective laws of a commodity economy, mainly the law of value. This is precisely the point we overlooked in the past and is a problem we must solve during economic reform.

In the past, we did not admit that a socialist economy is also a commodity economy. Within the economy owned by the whole people, the use of the market and the law of value to serve socialist construction was overlooked. So far as the social root is concerned, it was due to the serious effect of the mode of small production. As we know, the characteristic of small production is a natural economy marked by self-sufficiency. A family is an independent world and all operations and activities go on according to the will and under the direction of the family head. Self-sufficient small producers are, by nature, ones who reject commodity circulation and market relations. The reason is that in the domain of commodity circulation, strong competition is going on, commodity prices frequently change within a short time and the spontaneous force of the market ruthlessly controls the destiny of commodity producers who face the danger of going bankrupt any moment. Independent of the will of small producers, a social division of labor continues to develop and, along with this, commodity circulation and market relations expand. Small producers cannot but be thrown into the vortex of commodity circulation. However, they always do everything in their power by instinct to resist it, under the illusion of returning to the kingdom of a natural economy. Referring to petty bourgeois socialism, Marx and Engels said: "In its positive aims, however, this form of socialism aspires either to restore the old means of production and exchange, and with them the old property relations, or the old society, or to cramp the modern means of production and of exchange within the framework of the old property relations that have been, and were bound to be, exploded by those means." ("Communist Manifesto," "Selected Works of Marx and Engels," Vol 1, p 276) In this respect, Proudhon's view is typical. Marx said that Proudhon was an "out-and-out" "petty bourgeois philosopher and economist." "He is infatuated with the luxury of the big bourgeoisie and sympathizes with the people in their sufferings." (Marx, "To P. V.

Annenkov," "Selected Works of Marx and Engels," Vol 2, p 451) Engels said: "The objective of Proudhon's reform plan is to change all members of society into small property owners and small peasants." (Engels, "The Housing Question," "Selected Works of Marx and Engels," Vol 2, p 530) That is, to restore old property relations and the old society. How about the "means of exchange"? Proudhon held that capitalist commodity circulation is spontaneously regulated by the law of value and that prices fluctuate unavoidably and that small producers are unavoidably exploited by usury capital and commercial capital. For this reason, he advocated organizing a "people's bank," substituting "labor notes" issued by the bank for money, and substituting product exchange, under the guidance of the bank and without the use of money, for commodity circulation to avoid the middleman's exploitation and insure full income for laborers. Proudhon's illusion of restoring small production and doing away with money and market commodity circulation is just a manifestation of the conception of a natural economy. Talking about Duhring, another petty bourgeois economist, Engels said: "He and Proudhon are operating completely on the same base." "Like Proudhon, he wants to eliminate the abuses arising from the development of commodity production into capitalist production." His approach was "to substitute fully planned peddling for small commerce." Wholesale business was organized in the same way. "Thus the system of a free economy society...remains a huge exchange organization." (Engels, "Anti-Duhring," "Selected Works of Marx and Engels," Vol 3, pp 351 and 338)

This form of exchange is going on directly within the economic commune, between commune and individuals and between communes and not through the market. It completely excludes deviation of prices from value and implements the "universal principle of fairness" of exchanging equivalent labor. Thus, both Proudhon and Duhring attempted to substitute organized exchange and "planned peddling" for a market commodity circulation, and attempted to evade the regulative role of the law of value. Their views bear the imprint of a natural economy.

Why then does the Soviet system of planned management also exclude market commodity circulation? Most probably this has something to do with a traditional concept. Prior to the victory of Russia's October Socialist Revolution, all Marxists held that a socialist society would eliminate commodity production. How was the economy after the victory of the socialist revolution to be managed? Nobody had experience at the time. Being determines consciousness. The mode of small production extensively existing at the time and the old form of management built on this foundation could not but exert a tremendous influence. As we know, while monopoly capital had gained a definite development prior to the victory of Russia's socialist revolution, it did not enjoy superiority in the national economy, and a capitalist commodity economy had not yet developed. In 1913, Russia's rural population accounted for 82 percent of the national population. In some rural areas, the natural economy began to make a transition to a commodity economy. In some localities, patriarchal small production and feudal serfdom still

occupied a predominant position. The characteristic of Russia's economy was a combination of monopoly capitalism and survival of feudal serfdom. Lenin called Russian imperialism military feudal imperialism. This state of affairs determined that the force of habit of small production could not but exert a tremendous influence on one's knowledge of a socialist economy. This influence found its main expression in not recognizing the objective inevitability of the existence of commodity production and commodity circulation under the socialist system and in representing the socialist economy as a natural economy. This was how Russian economists viewed the problem in the 1920's. For example, Bogodanov said: "The foundation of the new society (referring to socialist society) is not an exchange but a natural, self-sufficient economy. Between production and consumption there is no buying and selling market; there is only conscious, systematic and organized distribution." ("Course on Economics" by Bogodanov, 1919) Kai Er Wei [0418 1422 4850] said: "Socialism is a natural economy. The development of this economy does not call for gold or a paper currency based on gold as a means of storing up and evaluating commodities. There is no doubt about this." ("Calculation of the Labor Value of Commodities and the Urgent Task of Economic Construction," No 1-2, 1921, pp 55-56) This view was also reflected in the party's official documents. For example, "The General Principle of the Russian Communist Party (B)" (1919) (?stated): "In the sphere of distribution, the present task of Soviet state power is to continue to firmly substitute planned and organized product exchange throughout the country for commerce." ("Collection of Resolutions of the Soviet Party Congresses, Conferences and Plenums," Chinese Edition, Vol 1, pp 546-547) Subsequent practice proved that as long as diversified economic factors exist, commodity exchange cannot be dispensed with, commodity circulation cannot be done away with and the law of value still acts. Lenin called on people to learn how to do business--"civilized trading." Stalin also said that with socialist ownership by the whole people and ownership by the collective existing side by side, commodity production is still necessary. This is an important contribution to Marxism-Leninism. But essentially he still regarded commodity circulation and the law of value as survivals of the old society, did everything to restrict them, excluded the means of production from the domain of commodity circulation and emphasized that the law of value does not play a regulative role. Thus, the mind of the Soviet economists, including Stalin's, had not completely shaken off the influence of the small producer's concept of natural economy.

It is under the influence of this concept of natural economy which excludes market commodity circulation that the Soviet system of planned management seldom gives consideration to the requirement of the law of a commodity economy, mainly the law of value. Actually, it is modeled after the pattern of a small producer's mode of operation. The national economy as a whole is like a big family. In this big family, the head (the state) organizes production according to needs, all the products of enterprises are turned over to state warehouse (state monopoly for

purchase and sale), and the means of production needed by enterprises are supplied by the state (planned transfer). Inasmuch as there is no commodity circulation and the law of value does not act as the regulator, how can the state manage production? By doing what the small producer does. The state acts like the head of a big family, setting mandatory targets from above, and enterprises do everything according to state directives. Indeed, the absolute authority of feudal sovereigns and the ranking in bureaucratic organizations reflect the relations in the family of a small producer, in which precedence is maintained between the seniors and juniors. It must be said that the Soviet system of management characterized by centralization of power is influenced to a certain degree by the tsar's feudal-autocratic bureaucratic organization based on the mode of small production. Here is the origin of government workers, government merchants and so forth.

After liberation, our country learned Soviet methods of planned management with the result that we subsequently failed to break out from its confines. There are many reasons for this. First, we did not sum up our experiences seriously. Originally we had many good experiences in utilizing the market and the law of value. In particular, during the period of rehabilitation, the First Five-Year Plan period and the period of readjustment of the national economy in the 1960's, our operation and management produced good effects. Unfortunately, we did not sum up our experiences seriously. Second, the influence of small production was even more grave in our country, compared with Russia shortly after victory in the October Revolution. In old China, a commodity economy was even less developed and the proportion of small production was even greater than in Russia. For this reason, the Soviet system of planned management instituted after the pattern of small production operation and management fitted in with conditions in old China. Third, in the war years, the channels of commodity circulation were blocked by the enemy in the base areas and liberated zones. The enterprises we operated could not but put into practice a supply system with regard to funds, raw materials and semifinished products. Fourth, during the period of socialist transformation, we monopolized the sources of raw materials and semifinished products and also the commodity sales market and carried out "placing processing orders, ordering goods, making unified purchases and guaranteeing sales" in dealing with capitalist enterprises. By so doing we severed the connections between capitalist enterprises on the one hand and market commodity circulation on the other, and compelled them to accept the leadership of a state-owned economy, enter into the orbit of a socialist planned economy and accept socialist transformation step by step. Originally, this set of measures was taken to restrict the growth of capitalist enterprises, but subsequently they were consciously and unconsciously regarded as an effective method of guiding the operations and activities of socialist enterprises according to plan and were prolonged.

It should be pointed out that the system of highly centralized, planned management played an important part in overcoming production anarchy, in concentrating funds, manpower and material resources, in insuring key-point construction and in supporting backward areas. This was necessary for the rapid building of heavy industry and the building of an independent system of the national economy. From now on, it will still be necessary for the state to exercise appropriately centralized, unified leadership over the national economy as a whole. The point is that along with the development of the economy, especially the development of socialized large production, the system of overcentralized, planned management is becoming increasingly incompatible with it. With emphasis laid on administrative means to manage the economy, the role of the market and the law of value overlooked and the economic effect disregarded, the following defects have developed: The quantity and quality of production are sought without regard to market and social needs; sales are fixed according to production; production is divorced from sales; long-term line products are haphazardly increased; production of short-term line products and new products is not increased. At the same time, enterprises have no right to take the initiative in operation and management. They are impeded by the administrative departments at higher levels from handling production, supply, marketing personnel and financial matters. Lacking competition, they have no internal economic dynamics. The rate of growth of the national economy as a whole is adversely affected. This system of planned management is no longer adapted to the requirement of the four modernizations. The time has come to reform it before it is too late.

III

To meet the needs of socialized and modernized construction, it is necessary to urgently carry out a fundamental reform of our present system of planned management according to the requirement of the law of economy relevant to commodity production and under the premise of traversing the socialist road and upholding a planned economy.

The orientation of reform is:

A. Recognize the Position of Enterprises as Commodity Producers, Correspondingly Enlarge Their Prescribed Right To Operate and Manage

Inasmuch as socialist enterprises are a community of united laborers with special interests, they must have the position of producers and, according to the requirements of the law of value, carry out strict business accounting, "assuming responsibility for their own profits and losses." (In "assuming responsibility for their own profits and losses" socialist enterprises owned by the whole people differ from capitalist enterprises or enterprises owned by the collective. In the case of socialist enterprises owned by the whole people, profits made should be distributed according to state provisions; if enterprises have

suffered losses, the state should insure a definite income for their staff and workers in addition to helping the enterprises put themselves to right. This is "assuming responsibility for their own profits and losses" in an imperfect sense, or is called "partially assuming responsibility for their own profits and losses.") Lenin said: "Business accounting means the principle of commerce." ("The Function and Task of Trade Unions Under New Economic Conditions," "Collected Works of Lenin," Vol 4, p 582) He further said: "The trusts and enterprises are built on the foundation of business accounting precisely to make them assume responsibility and full responsibility at that so they will not suffer losses in business." ("To the People's Committee of Finance," "Collected Works of Lenin," Vol 35, p 549) Comrade Mao Zedong also said: "Make all factories operate along the enterprise line. All factories should take their profits and losses as ups and downs of their enterprise." ("Economic Problem and Financial Problem," "Selected Works of Mao Zedong," Tongbei Bookstore 1948 Edition, p 822) This makes it imperative to change the former system under which enterprises whose prescribed rights are too limited are required to refer all things, big and small, to the higher levels for consideration and approval.

If the position of enterprises as commodity producers is recognized, they should enjoy rights due them:

1. Right to draw up their own plans: Enterprises have the right to draw up their own production plans independently according to state and market needs, their own production conditions and economic interests. Their plans should rest on the foundation of contracts. Concerning the needs of the state, the state and the enterprise concerned are also to enter into a contract, under which the state insures the interests of the enterprise and the enterprise insures fulfillment of state tasks.
2. Right to sell their products: In addition to insuring fulfillment of the task of filling state orders for goods as prescribed in contracts, the enterprise concerned has the right to sell its own products.
3. Right to control their funds: After delivering tax receipts to the state (including the costs of appropriating funds) as prescribed along with the principal and interest on loans, the enterprise concerned has the right to decide on replacement of its equipment and to carry out reconstruction and expansion according to market needs and their own conditions; the right to lease out or sell its idle or surplus fixed assets; the right to establish welfare undertakings according to needs and possibilities and to decide methods of distributing bonuses to its staff and workers according to the amount of profits made.
4. Right to adjust labor and wages: The enterprise concerned may advertise for vacancies and select qualified people for employment according to its needs. Its surplus labor power may be turned over to the labor department for reassignment. Measures for wage scales and

rewards may be determined in light of state wage scales and the system of rewards. Along with increases of labor efficiency, the wage level must be raised within the limit prescribed by the state.

5. Right to fix prices of commodities: With regard to products with prices fixed by the state, state provisions must be carried out (if the prices fixed are not reasonable, the state should give an allowance to insure that the profits of the enterprises are generally not below the level of average profit). With regard to products whose prices are negotiable, the prices are to be fixed by the production enterprises and the user. As to other products, the enterprise concerned has the right to fix its own prices according to market supply and demand.

6. Enterprises have the right to reject various tasks of distribution and transfer apportioned by any leading administrative organ, for example, arbitrary transfer and use of enterprise funds, materials, equipment, products and personnel.

B. Organize Various Kinds of Companies According to Objective Economic Connections, Bring the Role of Economic Organizations Into Full Play

Along with the constant progress of production techniques and the ceaseless development of social division of labor, production specialization is rising higher and higher and the scope of cooperation is becoming increasingly broader. In modern industry, not only a product but also various parts of products and various technologies of production have the distinctive feature of socialized production. Markets for products are also expanding from individual areas to the whole country and from the country to the international arena. Socialization of production demands that enterprises be organized on the principle of specialized cooperation to increase the economic effect. To meet this demand, the developed capitalist countries have universally adopted forms of economic organizations such as cartels, syndicates, trusts and concerns. In the last 20 years, transnational companies have also developed rapidly. It is under the spontaneous action of the law of value that these forms of economic organizations adopted by capitalist countries have been realized through competition and annexation. These forms of economic organizations create conditions for enlarging the division of labor, raising the degree of specialization, carrying out production mechanization and automation, increasing the quantity of products, improving their quality, raising labor efficiency and lowering production costs. Socialist countries may use these forms of economic organizations, which are scientific in character, to serve socialism. Romania and Yugoslavia have respectively set up industrial centers and united labor compound organizations as forms of industrial management and achieved some results. Their experience is worthy of being learned by us. It is also necessary for our country to gradually create conditions for changing the system of direct management of the economy by the central and local authorities into one where organizational forms of specialized companies or joint companies are

extensively adopted on the principle of specialized cooperation and where economic organizations are used to manage the economy.

Companies are economic organizations carrying out independent business accounting and "assuming responsibility for their own profits and losses." The companies possess the necessary funds and assume economic and legal responsibilities for their own operational activities. The companies should be organized in diversified forms, depending on the scope of their operations. Some companies are united in production: they are organized according to the type of products, production connections and multipurpose utilization of resources. Some are united in commerce, taking orders under unified plans and coordinating sales of their products. Some are service trade in character. The boundaries of departments and areas have been eliminated. Some companies are national and some local. In the establishment process, some will have to readjust the relations between the superior and the subordinate by placing some factories and mines under a company's management. Some factories and mines may maintain their independence and establish cooperative relations with the company concerned.

The companies occupy the same position and enjoy the same prescribed rights as commodity producers. Within its scope, a company has the right to exercise unified leadership, command, management and distribution concerning all economic activities including the drawing up of plans, production, construction, supply and marketing, labor, financial affairs and so forth. Factories and mines under a company maintain a definite independence and institute a relatively independent system of business accounting. The relations between national companies and regional ones, between the head office and branch companies, and between companies and independent enterprises are contract relations. With the exception of delivery of tax collections and various costs to the central and local authorities according to law, the economic intercourse between the central and local companies is also in a contract form.

Having reorganized industry according to the principle of specialized cooperation and having used economic organizations to manage the economy, the central and local departments of economic management will no longer take a direct part in the economic affairs of enterprises and economic organizations. They will gradually be transformed from organs of administrative management into advisory economic organizations. The keypoint of their work will consist in studying and drawing up guiding principles and policies, mapping out development schemes, furnishing economic information, providing technical guidance and organizing exchange of experiences; in setting reference targets of nationwide development for their trades; in coordinating production-supply-marketing plans of major companies and enterprises and regulating the economic interests between various companies and various independent enterprises; in utilizing various economic levers effectively to insure all-round realization of state plans.

C. Gradually Change the Mandatory Plans Into Guiding Plans

For a long time, people have thought that a planned economy would make it imperative to send mandatory plans to the lower level. Some even took mandatory planning as a hallmark to distinguish socialist economic planning from the capitalist market economy and to distinguish the socialist orientation from the practice of revisionism and the restoration of capitalism. This is a misunderstanding.

To be sure, a planned economy is one of the distinctive features of socialism. Society as a whole needs a unified plan to guide the coordinated development of the national economy. Both Marx and Engels once said that contrary to the production anarchy in a capitalist economy, a socialist economy is developed according to plan. However, Marx and Engels never said that all operational activities of each economic unit in a socialist economy must follow the directive of the higher level. They did not even foresee that commodity production would be preserved in a socialist economy. Lenin stressed the need of unified plans, saying: "Only construction undertaken according to a general, comprehensive plan and with rational use of economic resources is worthy of being called socialist construction." ("Speech at Congress of Provincial Soviet Chairmen," "Collected Works of Lenin," Vol 28, p 18) However, Lenin did not say that mandatory plans must be sent to enterprises. On the contrary, he emphasized: "All plans are measurements, criteria, lighthouses, roadmarks and so forth." ("Outline on 'On the Grain Tax,'" "Collected Works of Lenin," Vol 32, p 319) Referring to the Russian plan of electrification, he said: "This is only an initial, brief plan... This program will be improved, revised, perfected and changed every day in every factory and every town." ("Eighth Congress of All-Russia Soviets," "Collected Works of Lenin," Vol 31, p 467) It was Stalin who brought forward mandatory plans. However, practice has proven that this method of planned management violates the law of socialist commodity economy, particularly the requirement of the law of value. Its effect is not good.

The unified plans of the state should only determine the main relations of proportion in the national economy, for example, the proportions of accumulation and consumption, of agriculture, light industry and heavy industry, of various branches within agriculture and within industry, of production and construction, of social purchasing power and quantity of commodity supply, and so forth. These proportions should not be determined by the higher level and no mandatory plans should be sent down from top to bottom. On the contrary, the plans should be worked out from the bottom up through coordination, level by level. Only such plans come from practice and conform with it. If this is so, are state plans simple collections of enterprise plans? Of course not. Through coordination, imbalances will be discovered. Moreover, not knowing the overall situation, primary economic organizations often proceed from local interests, and their operations and activities do not necessarily

meet the needs of society. Under these circumstances, it is necessary for the state to achieve a comprehensive balance and take measures to regulate their operations and activities.

1. Utilize the function of the market and the law of value, bring the role of economic policy measures into play in guiding the activities of the economic organizations to insure a coordinated development of the national economy as a whole. These policy measures include those for credit prices, taxation, customs and tariffs, and foreign exchange as well as disposal of depreciation costs, wage payments, profit distribution, use of enterprise funds, and so forth. These measures are used to guide enterprises toward social needs.

2. The state controls part of the financial resources and supply reserves. When short-term requirements prevent the above-mentioned economic policy measures from becoming immediately effective, the state may make direct investment and build new factories or utilize import and export measures to maintain the necessary relations of proportion.

3. If necessary, the state directly intervenes in certain economic organizations and enterprises, applying its administrative power for the purpose. For example, the state prescribes production of certain products and reduction or prohibition of production of certain products and even changes the production orientation of certain enterprises. Enterprises that are not well operated and managed for a long time may be ordered to stop production, put things in proper order or even close down.

To sum up, under conditions of a commodity economy, state plans must be based on the utilization of the market and the law of value. At the same time, under guidance of state plans, a socialist commodity economy may achieve a planned, proportional development. During the period of rehabilitation of our national economy and the First Five-Year Plan period, we brought the individual economy and capitalist economy into the orbit of state plans through various economic policies and measures, thereby insuring a planned, proportional, high-rate development of the national economy. If this could be done with good results at a time when nonsocialist economic factors existed, why can it not be done to enterprises owned by the whole people and to collective enterprises?

It should be pointed out that reform of the management of the planned economy is important work. Our prevailing methods have been put into practice for more than 20 years and many people are accustomed to them. In particular, they involve the interests of many sides. Reform must be carried out with care. It is imperative to make a good job of ideological work and unify understanding before carrying out the reform. At the same time, the system of planned management is not an isolated one. It is closely bound up with the management of finance, supplies, prices, and so forth. Along with reform of the system of planned management, other

management systems will have to be reformed correspondingly. All these reforms will not be easy to accomplish. It will be necessary to put forward various schemes on the basis of extensive investigation and study and on the basis of summing-up domestic and foreign experiences to repeatedly compare the reforms and fully deliberate on them. At the same time, since the basic proportions in the national economy were thrown out of order by the "gang of four" and as this state has not been completely changed, conditions have not been fulfilled for fundamental reform of the system of planned management. The central task in recent years still consists in adjustment. It is necessary to stress centralization appropriately. However, we may not regard adjustment and reform as two things which have absolutely no connection with each other. For the present, the keypoint of work is on adjustment. At the same time, we must find the orientation of reform. Adjustment must facilitate reform. Certain policy measures like trial establishment of various types of companies, enlargement of certain powers of enterprises, institution of systems of enterprise funds, of using funds with compensation, and of economic contracts, adjustment of prices, and so forth may be put into practice for trial during the adjustment stage to create conditions for major reform.

CSO: 4006

ECONOMIC PLANNING

FIXED ASSET DEPRECIATION FUND DISCUSSED

Economic Nature Explained

Beijing JINGJI GUANLI in Chinese No 2, 15 Feb 79 pp 48-51

[Article by Tian Chunsheng [3944 2797 3932]: "The Economic Nature of Fixed Asset Depreciation Fund"]

[Text] Problems of Discussion

Editor's Note: At present, China lags behind in technology, our enterprises have many old equipments of poor quality and low efficiency. Speedy reform renovation constitute an important problem of modernization. It is related to methods of drawing and using fixed asset depreciation funds. The following two articles present different views on the subject. They are published to arouse further discussion.

May the fixed asset depreciation funds of enterprises be used to enlarge reproduction? Which is the better way of using the funds, centralized or decentralized? This has been a controversy from theory to practice in many years. The argument against the use of fixed asset depreciation fund for the expansion of reproduction is that the fund should be used to compensate the wear and tear of fixed assets in the course of reproduction. Because, Marx pointed out in his statement on social reproduction in "KAPITAL" that the condition for reproduction is that what has been compensated in value and in kind; otherwise, reproduction will be impossible. Therefore, depreciation embodying the wear and tear in value of fixed assets is the compensation in value given to fixed assets by the process of reproduction; without this compensation, simple reproduction will not be possible. If this compensation fund is used for the expansion of reproduction, simple reproduction cannot be assured. Proceeding from this point of view, naturally one will also oppose the centralization of a part of depreciation funds of the enterprises to the treasury, but will advocate the retention by the enterprises for renewing their fixed assets.

The other view is that under socialist conditions, depreciation funds can be taken as national financial income, and should be surrendered totally, the state will then make unified arrangement for the use, including the use to expand reproduction.

In my opinion, both foregoing views are not comprehensive. They have not grasped completely the economic nature of fixed asset depreciation fund, and have nothing in common with the objective reality of the depreciation fund movement. In my opinion, the depreciation fund is a compensation fund for making up the wear and tear of fixed assets and, at the same time, is also an accumulation fund which may be used for the expansion of production. As it is not a net national income, it is not proper to carry out its distribution through the treasury; however, the national bank may and should centralize these funds and do the distribution.

Depreciation Fund Should Not Only Guarantee Simple Reproduction but Also Be Used To Enlarge Reproduction

The fixed asset depreciation fund has its dual nature. As a compensation fund, it is determined by its similarity to the turnover of the means of production. Because, being similar to the circulating asset, it also transfers its value into the product through the process of production, again flows back into the hand of the producer through the sale of the product, and thus receives its compensation in value (and in kind) so that reproduction can go on continuously. As accumulation fund, it is determined by the characteristics of the turnover of the fixed asset. It is different from the circulating asset, its characteristics can give play to their role continuously in a long period of several years, a dozen years or even scores of years; therefore, compensation in kind can only be realized at the time when the fixed asset is crossed out. However, its compensation in value takes place gradually with the extent of its wear and tear and the corresponding transfer of value. This characteristic of disunity between compensation in value and compensation in kind of fixed assets decides that in the process of compensation, there must be a currency storage which Marx called a portion of currency precipitation tied up beside the production capital.¹ We know that any enterprise may have many kinds of fixed assets, each of which will go through the process from wear and tear to disuse. The depreciation fund drawn in the process of wear and tear always represents a kind of currency precipitation. Till the time when the fixed asset should be renewed and replaced, the accumulated currency precipitation will then be paid out. As far as any fiscal year is concerned, an enterprise will have some fixed assets to be renewed and others in the process of being used with no need of renewal. For the former, the expenditure for renewal comes only from the depreciation fund accumulated by themselves; the depreciation fund accumulated and drawn by the latter always represents a currency precipitation. This condition is a kind of regularity, and is not accidental. It is a very important scientific explanation which Marx made from his observation of the fixed asset depreciation fund movement.

Now, is this currency precipitation from depreciation fund simply lying there idle? Certainly not. Marx made his investigations and study and came to the conclusion that this portion of currency precipitation can be used as an accumulation fund.² On several occasions he mentioned that depreciation fund is the fund to compensate the wear and tear of fixed capital

and, at the same time, is also the accumulation fund.³ From our own practice, we can also fully prove this point. In the past 20 years and more since the founding of the People's Republic, with the large increase of fixed assets, the amount of depreciation funds in reserve has increased accordingly. Not only have they been used to renew fixed assets, but also the currency precipitation from depreciation funds has been used to tap potentialities and make renovation and reform, as factors of enlarging reproduction, and even as the expenditure of capital construction to carry out new construction, reconstruction and expansion.

When a portion of depreciation fund is used to expand reproduction, will an enterprise have no fund to renew its fixed assets, and will its simple reproduction be affected? Some comrades argued that as far as these years are concerned, because some fixed assets need not be renewed, there is no problem to take away temporarily their depreciation funds; however, there must be a day when all fixed assets of an enterprise will be put away and replaced; will some fixed assets have no funds to make renewal? This question deserves attention. It is based on the supposition that an enterprise will renew all its fixed assets at the same time in the future; before the time of renewal, the enterprise will not carry out any partial renewal, and will not add any new fixed asset. Apparently, as a matter of fact, this supposition cannot stand. In reality, all enterprises have various fixed assets which are different in the number of years of service, and will always be replaced successively in due course. When fixed asset A comes into disuse, its depreciation fund is used for renewal; fixed asset B is still in use and reserves depreciation fund. When fixed asset B comes into disuse, its depreciation fund is used for renewal; fixed asset A (the renewed fixed asset A) remains in use and reserves depreciation fund. This is a continuous flow. If the flow is interrupted at any point, there are always some fixed assets remaining in use with their depreciation funds on the balance sheet, from which a suitable portion or amount can be taken out for the expansion of reproduction. It will not affect the renewal of fixed assets of the enterprises.

Of course, the use of depreciation fund as accumulation is different from the use of financial income as accumulation. In the latter case, when plans are made, the total amount can be used for the expansion of reproduction. But, depreciation funds can never be totally taken out to expand reproduction. First, it is necessary to insure the compensation of consumption of the fixed assets and, on the basis of having insured simple reproduction, to fully use the portion of currency precipitation, which is available all the year round and increasing continuously with the progress of production and construction, for the expansion of reproduction. Otherwise, we will repeat out old mistake of "incurring debts" from renewing fixed assets of enterprises, which had once occurred in the course of construction in our country.

We believe that our practical work should be guided by the economic nature of the depreciation fund. This will be of help to further tap the potentialities of this fund. We should see that in the march toward the four

modernizations, the scale of capital construction, tapping potentiality, renovation and reform is becoming larger and larger; the amount of currency precipitation from depreciation funds, which may be used as accumulation, should also become larger and larger. From the current situation in capitalist countries, it may be seen that the proportion of depreciation funds used for the expansion of reproduction is very large.

Take the processing industry in the United States as an example, in the 23 years from 1950 to 1972, of the total investment in fixed capital every year, an average of 77 percent came from depreciation funds, while only 23 percent of the increase in fixed capital came from profits. Again, as seen from the structure of investment, of the total investment in these 23 years, 57 percent was used to make up fixed capital withdrawn and to modernize enterprises, and 43 percent was used to build new enterprises. In other words, depreciation funds can not only take care of renewal and modernization totally (57 percent), but also build new enterprises with funds constituting 20 percent (57-77 percent) of the total amount of investment. It is obvious what a great role the depreciation funds have played in the expansion of reproduction. Of course, capitalist enterprises practice "speedy depreciation" to cover up the extent of exploitation of surplus value, escape the payment of taxes, minimize the loss of invisible consumption and shift the burden to the working people, and artificially enlarge their reserve of depreciation so that the proportion of depreciation to be used for the expansion of reproduction can be increased. In our country, the rate of depreciation of fixed assets is much lower than that of foreign countries, because we have no need at all to play the game of speedy depreciation as capitalism. However, as we have not taken into consideration the factor of invisible consumption, our rate of depreciation appears to be too low, and cannot cope with the need of developing quickly sciences and technology. This is a problem to be studied and solved.

Depreciation funds are used for the expansion of reproduction mainly through channels of tapping potentiality, renovation and reform. These are the important channels for China at present to accelerate the development of industry. They are often connected with the renewal of fixed assets, and are conformed with the principle of enlarging reproduction on the basis of insuring simple reproduction. When depreciation funds are used for tapping potentiality, renovation and reform, should there be any surplus, it can be used in a planned way as the expenditure for capital construction. Should there be any shortage, the state should make it up with appropriation from its budget.

Suggest To Make Investment Banks Control Depreciation Funds

Since the founding of the People's Republic, we have practiced three methods. Before the Great Cultural Revolution, the enterprises used the method of "unified receiving and unified paying" of depreciation funds. They surrendered all their depreciation funds to the state treasury which made appropriations to be handed down level by level for four items of expenditure required by the enterprises for "technology, new equipment, labor and petty cash" and for the renewal of fixed assets. In 1967, this centralization was

changed totally into complete decentralization. At that time, it was stipulated that the central enterprises should still surrender a portion of their depreciation funds to the state treasury; however, with the reform of the economic control system in 1970, all enterprises directly subordinate to central authorities were successively released downward and placed under local authorities, their depreciation funds were also released downward and given to local authorities and the enterprises. Under the demand for the readjustment of national economy in 1975, the departments concerned proposed the method of improving the control of funds for renewal and reform according to "3-3-4" ratio (meaning the ratio of distribution between the central, local authorities and the enterprises), which was rejected by the "gang of four" who enforced their "dictatorship of dogmatism." After the downfall of the "gang of four," the proposed method of partial centralization and partial decentralization of funds could then be put in force. From its enforcement since a year ago, we can see that it is a great step forward in comparison with the previous two methods. Before the cultural revolution, all depreciation funds were centralized so that the enterprises had not a bit of right of self determination. It was very detrimental to the development of production. We can say that it was excessive control. The method of decentralization taken in 1967 put a huge amount of funds outside planning, which the lower levels used freely to infringe upon state plans, dislocate the supply of goods and material and promote malpractice. Though some units used their funds properly with good results; but, the situation as a whole was in confusion. The harm done was greater than its merit. (Of course, decentralization should not take the whole responsibility.)

However, this method still has some shortcomings. On the one hand, many enterprises complained that the portion of funds to be retained was too small, which could not insure the financial needs for measures of tapping potentials and renovation, urgently required in production; on the other hand, some other enterprises retained too much funds which were lying idle and could not be used. The main reason was that during a certain period, the requirement of funds for alteration of an enterprise was very much out of balance with funds which the enterprise could provide by itself. For instance, in some newly built enterprises, or in some enterprises which have just completed technical renovation, their technical equipment is more advanced, there is little need for alteration in a period of time, but they often retain a large amount of depreciation fund. In some other enterprises which must undertake key work of tapping potentials, renovation and reform, or in those enterprises which have very old and obsolete fixed assets, there is a great need of alteration funds. However, it will be very difficult for the government to stipulate different proportion of reserve funds for enterprises in different conditions; therefore, it will naturally happen that the former have retained too much alteration funds, and the latter too little. (Certain enterprises which require large sums of alteration funds will never have enough money even if they have kept all the depreciation funds.) Under such situations, though the department in charge of these enterprises may make adjustments between the enterprise to moderate the contradictions; but, such problems cannot be solved fundamentally.

How to solve these problems in a better way? In my opinion, we should first proceed from the economic nature of the fixed asset depreciation fund, and make clear the main characteristics and requirements in the depreciation fund movement, namely:

1. Under ordinary circumstances, an enterprise retains fixed asset depreciation fund to meet its need of renewal of simple reproduction; however, a portion of the fund will become "currency precipitation." The capitalist countries will never leave it idle as waste; the socialist countries should all the more make good use of it.
2. When an enterprise expands reproduction by tapping potentials, renovation and reform, sometimes it can use depreciation fund accumulated by itself, otherwise it must depend on financial aid from the government.
3. The work of tapping potentials, renovation and reform must be carried out with overall planning, under proper leadership and on key projects. The enterprise should not do the work in a random way and touch everything.

To explain these three points in simple language, in a definite period, some enterprises have more alteration funds than necessary, others are short of funds, some enterprises have key projects to undertake, others have no need to make any reform even if they have funds. The ideal is to have such an organ as to centralize all depreciation funds retained by the enterprises (including "currency precipitation") and, at the same time, flexibly and selectively give these funds to enterprises which are in urgent need of them. The role which a bank plays as "a reservoir keeping water in storage and allowing it to flow in and out" is precisely what is wanted. I hope that the state bank of long-term investment should control alteration funds.

The depreciation fund retained by an enterprise should be deposited in a long-term investment bank earning interest as deposit. When the enterprise needs alteration fund within the scope of its deposit, it may draw money from the bank. If the enterprise needs more money, it may apply for a loan and pay interest, and repay the money in a stipulated period. The enterprise should make plans for deposit, withdrawal and application for loans of alteration funds, and submit the plans to the bank beforehand. The bank will make a comprehensive balance with the departments of planning, supplies and finance before the implementation of the plans. The surplus from deposits of alteration funds held by long-term investment banks of all levels may be appropriated by banks of higher levels according to plans. Any shortage of funds for loans exceeding deposits should be made up by banks of higher levels. Balance is to be kept in this way level by level, up to the central level.

The advantages of this method are as follows:

1. Enterprises will have greater authority in their economic activities. When an enterprise wants to undertake renewal, tap potentials and make

reform, it can withdraw money and make loans from the bank, so that the enterprise can take the initiative to solve weak links of production and raise productivity.

2. Enterprises will assume greater economic responsibilities. In the past, whenever an enterprise wanted to tap potentials and make renovation and reform, it always asked the government for money; it cannot do so in the future. An enterprise must calculate the economic effect of any reform, and whether or not it can make up the interest and repay the loans; so that the enterprise will spend less money and do more work.

3. Funds will be used more effectively. The banks will play fully the role of control and supervision over the use of renewal and reform funds in their localities, fully use depreciation funds deposited by the enterprises, and release loans in excess of the surplus of deposits by gradually shortening the period for the repayment of loans. With the development of construction enterprises, the transactions of depreciation funds will increase greatly, and the state will certainly expand more and more the sources of funds for tapping potentials, renovation and reform.

The alteration funds of the enterprises should be controlled by long-term investment banks, to cope with the economic nature and the characteristics of the movement of fixed asset depreciation fund. It is also an important aspect of our conscious application of the planned economy of socialism. We should continuously improve the control of this category of funds, so that it will make still greater contributions to accelerating national construction and the four modernizations!

FOOTNOTES

1. See "Complete Works of Marx and Engels," Vol 24, pp 502, 504
2. Ibid., Vol 31, pp 332, 335
3. Ibid., Vol 26, No 3, pp 58-59

Renewal of Fixed Assets

Beijing JINGJI GUANLI in Chinese No 2, 15 Feb 79 pp 52-54

[Article by Tian Jianghai [3944 3068 3189] and Liang Wensen [2733 2429 2773]: "Basic Depreciation Fund Should First Insure the Renewal of Fixed Assets"]

[Text] In our country, the fund for renewal and reform of fixed assets is constituted on the foundation of basic depreciation fund. In the 5 years from 1973 to 1977, of the total renewal and reform funds throughout the country, about 77.9 percent of depreciation was drawn according to the wear

and tear of fixed assets, about 10.8 percent according to output, about 3.5 percent was realized from fixed assets, and about 7.8 percent came from appropriation on special items and small loans. All the first three items (about 92.2 percent) were of the nature of basic depreciation fund, and the last item in part also came from the redistribution of centralized basic depreciation funds. In other words, the renewal reform funds may be considered as basic depreciation funds. The basic depreciation funds being discussed in this article also mean renewal reform funds in real life.

The basic depreciation fund is, in its economic nature, a kind of compensation fund, which should be used mainly to renew old equipment and factory buildings, and for old enterprises to tap potentials and make renovation and reform. However, in past years, such funds were often used for other purposes. For instance, expenditures of building railways, setting up commercial networks, establishing schools and sending educated youths to the countryside were all taken from the basic depreciation funds. Especially in the case of capital construction, whenever there was a shortage of funds, it was made up with money from depreciation funds; unfinished projects were completed with money of the depreciation fund; and final touches of completed projects were also financed by depreciation funds. As a matter of fact, depreciation funds became the major source of reinforcement for investments in capital construction. According to rough estimates of some localities, about one half of basic depreciation funds has been used for capital construction, and only about 20 to 30 percent was used for renewal and reform of fixed assets. In other words, the basic depreciation fund, in its economic nature of a compensation fund of fixed assets, was not used basically to renew and compensate fixed assets.

What was the cause? Was it because there were not many fixed assets in need of renewal? No.

Just after the liberation, in some enterprises which were taken over by us from the Kuomintang, the machinery and equipment were already very old and out of date, among which there was a certain proportion of old-type lathes of the 30s and 40s, which have not been renewed up to the present. A considerable number of factory buildings and constructions were also very dilapidated; and in some localities, collapsed and dangerous factory buildings occupied areas more than 20 percent of the total areas of factory buildings of the enterprises. Even some enterprises established after the founding of new China have a history of more than 20 years, the period of their operation has exceeded 25 years; and there are many machines and equipment working with difficulty. There are also large numbers of factory buildings and constructions long out of repair and on the brink of being dangerous.

At present, of fixed assets which should have but have not been renewed, not only is the absolute number increasing, but also the relative proportion is becoming higher and higher. As the equipment and factory buildings are so old that they are almost useless, some enterprises are forced

to close down; even in those enterprises which remain in operation, the situation also threatens the life and safety of workers, and hinders technical progress. This is an important problem which should be solved quickly in current production.

A considerable number of old and used fixed assets have not been renewed in good time. What is the reason? Are basic depreciation funds inadequate? It is one of the factors. There are so many tasks of renewal and reform, and the rate of depreciation is so low that the compensation funds are truly not enough. We should consider making readjustments and raising the rate of depreciation, and increase properly the amounts of basic depreciation funds. However, if the present situation persists, depreciation funds are considered as a flexible source of finance, and a great portion is used to build new projects; then, there is no way to insure the simple reproduction of fixed assets, even by greatly increasing the amount of depreciation funds and raising the rate of depreciation by two or three times. Is it because too much basic depreciation funds are centralized, and too little retained by the enterprises for their use? It is true to some extent. When too much money is centralized at the higher level, it will often be too easy to spend the money for building new projects and expanding the old ones. However, even in the past, a considerable amount of funds retained by the enterprises was also used to build new projects. Therefore, we must first solve the fundamental problem, that is, we must keep in mind that according to the economic nature of depreciation funds, we must first insure the replacement and compensation of fixed assets, meaning that the simple reproduction of fixed assets must be maintained.

At present, some people hold that the economic nature of depreciation funds is dual, as both compensation funds and accumulation funds; therefore, the regulation of using depreciation funds only for simple reproduction must be changed. They argue strongly that the depreciation funds can be used for the expansion of reproduction.

Indeed, while criticizing the vulgar economists of the bourgeoisie, Marx said: "Depreciation funds, that is, funds compensating the wear and tear of fixed capital, at the same time are also accumulation funds."¹ We think that Marx made his statement mainly from the angle of the practical use of depreciation funds, not as his explanation of the economic nature of depreciation funds. Therefore, we cannot reach the conclusion that the economic nature of the fund is dual. As far as the source of accumulation is concerned, accumulation funds come mainly from the surplus output value in national incomes; in addition, a portion of accumulation funds comes from idle depreciation funds. This is also correct. However, in nature, the latter is the original capital, the former is newly created value; in quantity, generally the latter is smaller than the former. Furthermore, the latter's amount is mainly determined by the speed of turnover of the reproduction of fixed assets and other factors. In other words, depreciation funds used as accumulation funds are limited by preconditions and quantity. The preconditions are that the basic depreciation fund drawn in a year will not be used as compensation in kind of fixed assets in

the same year, or when the basic depreciation fund has met the compensation in kind of fixed assets, there is still some surplus. Under these pre-conditions, depreciation funds can be used as accumulation funds. The quantitative limit is that the amount of basic depreciation retained exceeds the amount required for renewal of fixed assets in the current year; the difference between the two is the maximum amount of depreciation fund usable as accumulation. The greater the proportion of fixed assets approaching the limit of years of service or having expired the limit, it implies that the greater will be the amount of renewal, and the amount usable as accumulation will be smaller, and vice versa. Generally speaking, under the condition of normally and uninterruptedly expanding reproduction, for the society as a whole, every year there is always more or less depreciation fund usable as accumulation; however, it does not exclude the possibility that in a certain year the requirement of fixed assets for renewal is very great so that the depreciation fund retained in the year cannot cover the expense of renewal of fixed assets. In that case, it will be necessary to draw a corresponding portion from the accumulation fund of national income of the current year to make up the shortage. Theoretically speaking, that portion of accumulation fund is, in essence, the reserved fund of basic depreciation accumulated in the past, which was kept at that time only as accumulation fund. However, from practical economic life, it may be seen that as the changes of reproduction of fixed assets are fast, or the rate of depreciation is too low, or the debt of renewal is excessive, or prices go up, all these factors will lead to the situation that in some years, funds required for the renewal of fixed assets exceed the amount of reserved funds of basic depreciation accumulated in the past, a portion of accumulation fund must be drawn and used to compensate the renewal of fixed assets. Therefore, we cannot unconditionally and freely use depreciation funds as accumulation simply because under certain conditions depreciation funds may be used as additional investment for the expansion of reproduction.

In one word, under certain conditions, basic depreciation funds and accumulation funds can infiltrate into each other in practical use. Within a certain period, a certain amount of basic depreciation funds in excess of requirements for the renewal in kind of fixed assets can be used as accumulation fund, just as the use of accumulation funds from national income to expand reproduction in playing its role of accumulation. In this respect, there is no difference between them.

However, the basic depreciation fund is set up to compensate the wear and tear of fixed assets, its original mission serves to insure the simple reproduction of fixed assets²; while accumulation fund comes from surplus output value, its principal mission serves the expansion of reproduction. Therefore, as far as their leading aspects are concerned, there is also distinction between these two in their fundamental economic nature.

As the use of depreciation funds for accumulation funds is objectively under strict limitation, its amount is determined by the scale, the frequency of turnover, the quality and structure and other factors of reproduction of

fixed assets; therefore, in making our plans, we must proceed from reality, carry out investigation and study, have a good grip on the fixed assets of all the departments of national economy as to their structure of age, the condition of their wear and tear and the changes of the period of their service, find out in a scientific way whether in a certain year there will be so much depreciation fund usable as accumulation, and then make rational arrangements for the renewal of fixed assets and the investment in capital construction. It should be pointed out that the proportion of depreciation funds usable as accumulation in the whole national economy is generally not very large as compared with the total amount of accumulation funds. If we unduly enlarge the amount of this portion, consider the economic nature of basic depreciation fund to be both compensation fund and accumulation fund, make no distinction between the primary and the secondary aspects, make no practical analysis, disregard the current real conditions and use too much depreciation funds as accumulation, then it will be a great mistake. Facts in the past 30 years since the founding of new China illustrate that in some years, we did not make basic depreciation funds insure first the simple reproduction of fixed assets so that it leads to the present serious situation that many enterprises are now depending on their "old means of living." Should it go on like this, it will certainly endanger the whole process of socialist reproduction. Under the circumstances, not only we must not emphasize the use of depreciation funds for accumulation, but on the contrary, we should take out a portion of money from accumulation funds and use it to compensate the renewal of fixed assets, in order to repay our "debts" of the past.

We hold that our explanation and application of Marxist theory of reproduction should not be isolated from time, place and conditions; otherwise, our society will make the theory not only fail to play the role of guiding practice but, on the contrary, do harm to practice. At present, our emphasis on breaking through the precept that depreciation fund is for the simple reproduction of fixed assets (as a matter of fact, we have long broken through this precept), and our assertion that depreciation fund should be used as much as possible as accumulation are not in conformity with the present situation that many old and obsolete fixed assets are in need of renewal, and do no good to socialist production and construction.

There is another view that it is easy to say in theory about the demarcation between simple reproduction and the expansion of reproduction; but in practice, it is difficult to draw a line of demarcation. Therefore, it is not necessary to emphasize that depreciation fund should first insure the compensation of fixed assets.

In fact, the principle laid down in the past to put maintenance before creation, and production before capital construction, and the policy stipulated at present that in increasing production the industrial front should place the tapping of potentials, renovation and reform of the old enterprises in the forefront are both vivid expressions of correctly handling the relationship between simple reproduction and the expansion of reproduction,

and of applying practically Marxist theory of reproduction to practice. We should not confuse the two categories of funds of fixed asset basic depreciation and capital construction investment. Projects which are clearly of the nature of capital construction, such as the construction of new enterprises, the expansion of subordinate enterprises or independent workshops, and the complete technical reform of large workshops or whole factories, should be paid for by capital construction investment, and should not be squeezed from the depreciation funds.

It cannot be denied that in real life, it is often not very easy to distinguish projects of renewal and reform from those of capital construction. The question is: what principle should we follow in handling this confusing situation? What should be done first? Many comrades always try to build new projects when there is money; as a result, the front of capital construction stretches too long, too many "moustache projects" have grown, too much funds have been spent, and no progress is seen in production. This experience and lesson should be summed up and remembered.

Some comrades did not use depreciation funds first for simple reproduction but for the expansion of reproduction, not because they did not see clearly the objective distinction, mainly because they "preferred new things to old things," and even sometimes tried to enhance their prestige by building new projects to enlarge the scale of enterprises. They failed to see that simple reproduction was the foundation and starting point of the expansion of reproduction, did not understand the interrelationship between simple reproduction and the expansion of reproduction, and were unwilling to use fully many favorable conditions of a large number of old enterprises, such as factory buildings, constructions, various transportation pipes and lighting equipment as the material technical conditions, and relations of constant coordination formed over a long period of time as conditions of organization and management of production. In this way, the expansion of reproduction would have no foundation of simple reproduction, and could not make progress solidly and continuously. This kind of expansion is unreal.

There is still one more view that though the use of depreciation funds for the expansion of reproduction affects the renewal of some fixed assets, these old equipment and factory buildings are still in operation and use, till the end of their service. There will be no loss or damage to the country.

As a matter of fact, dangerous factory buildings and old equipment should not be in use and operation; they are not really serviceable. They will lead to accidents and disrupt production. There will be loss and damage to the country. Moreover, some old machinery and equipment in use will require high cost of maintenance and repair. Sometimes, the expense for a major repair exceeds the original cost of fixed assets; some machinery and equipment of very old type and model bring about consequences of poor quality of products, low output, excessive consumption, high cost of production and the decline of labor productivity so that neighboring departments

and enterprises are affected in their production and cannot achieve greater, better, faster and more economical results. Therefore, as far as the whole society is concerned, the use of too old equipment in spite of visible and invisible consumption is economically not worthwhile.

Furthermore, if we fail to renew equipment by adopting new technology, it is also a faulty policy in strategy. Some comrades said that if chemical products are not improved in 3 years, factories cannot stand any longer; if the equipment is not rebuilt once in 5 years, production cannot cope with requirements of the time. With continuous use of old and obsolete equipment, the old enterprises can never adopt the advanced technology of the 70s, will have no means to turn out products of the 70s and, therefore, cannot accelerate the pace of the four modernizations. As far as the whole society is concerned, this is the greatest loss and damage to the country.

We should strategically tackle the renewal and compensation of fixed assets and the renovation and reform of old enterprises, and grasp these two problems by taking them as the base for consolidating our march toward the four modernizations. In his great work of "Problems of Strategy in Guerrilla War Against Japan," Chairman Mao said: "If we attend only to expansion and forget about solidation in our guerrilla warfare, we shall be unable to withstand the enemy's attacks, and consequently not only forfeit the possibility of expansion but also endanger the very existence of the base area. The correct principle is expansion with consolidation."³ This brilliant thought can be used entirely to guide us in the use of depreciation funds. Is it better to first insure the use for the compensation of fixed assets, consolidate the existing enterprises as the base for carrying out the four modernizations and lay a firm foundation for the expansion of reproduction? Or, is it better to attend only to development, use basic depreciation funds to build new projects, and consequently appear as expansion but in reality not only endanger the base area but also lose development? These are questions that deserve our careful consideration. We believe that now is the time to place the issue of the renewal of fixed assets by adopting new technology in the important agenda!

FOOTNOTES

1. "Complete Works of Marx and Engels," Vol 26, No 3, pp 58-59
2. With the rapid development of technology, the renewal of fixed assets with the adoption of new technology will appear in value as simple reproduction, and appear in the value of use (productive capacity) as the expansion of reproduction. This situation does not go against the original mission of basic depreciation fund, rather precisely conforms to its mission.
3. "Selected Works of Mao Zedong," Vol 2, p 101 [English]

ECONOMIC PLANNING

USE OF FLOW CHART IN MANAGEMENT ANALYSES

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 1, 15 Jan 79
pp 42-44

[Article by Pan Helin [3382 7729 2651]]

[Text] Everybody knows that production management has basically the following four elements as objectives: quantity of production (to increase production), quality (to raise quality), costs (to reduce production costs) and schedule (reduce the cycle of production), namely to produce more, faster, better and more economically.

Every human activity has a certain aim. Before taking action, man always first determines the aim, then gives consideration to the methods of achieving that aim and then puts these methods into practice. Finally he tests whether action has resulted in achieving the aim. If the aim has been achieved, all is well. If not, the reasons for the failure have to be investigated, the mistakes have to be found in the execution and corrections have to be made. This progression is graphically described in the $P \rightarrow B \rightarrow C \rightarrow A$ management cycle of Figure 1. Whether consciously or unconsciously, all men conduct their affairs according to this management cycle.

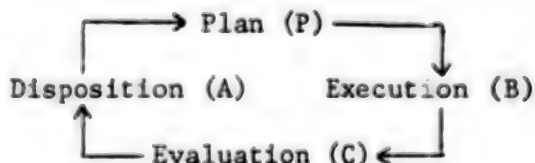


Figure 1

Plan: clear determination of the aim and direction, that is, clarification with what method to carry out what work.

Execution: putting the plan into practice at the planned rate of progress.

Evaluation: carrying out a comparative analysis of the plan and the result of its implementation.

Disposition: making arrangements in the light of the testing results to eliminate disparity between plan and execution and to improve the planning of the next cycle.

The hope of achieving the greatest result by expending the same effort is the common aspiration of everyone. "What are the main contradictions in our factory?" "Let us start out from the main contradictions!" These are the basic thoughts to lead to greater effectiveness in business administration.

In the shipyard, moving lifts by crane was formerly regarded as a type of subsidiary work and in general not considered important. However, investigation and analysis of the conditions of production have revealed in recent years that in shipyards which have not been technologically remodeled, 50 to 70 percent of the total time in shipbuilding is expended on moving lifts. According to the analysis of work time at a British shipyard, it took 1,250 minutes to move steel material from the stores to the place where it was fitted to the ship. Out of this time, 950 minutes were required for lifting, which is over 70 percent of the total time. At Mitsui's Tamano Shipyard in Japan, although modernized, lifting operations still required in 1965 around 30 percent of the total time. This shows that improving of lifting and conveying is an important aspect of raising labor productivity in ship repair and shipbuilding work.

Obviously, it is an absolute necessity to institute analyses of management focused on the administrative cycle $P \rightarrow B \rightarrow C \rightarrow A$. It is a necessary step toward raising labor productivity. The best method is to start with a careful analysis of the manufacturing process of a product, to break it down into its many single elements--work processes, and then to sum up, checking which working process can have its work cycle shortened and to evolve measures of technological organization to institute improvements. In this way it will be possible to raise labor productivity.

The factory where this writer is working is an experimental plant attached to a research institute. We are now attempting the following: We summed up and placed in order all the common characteristics shown in the trial production process by several products of the same category which had been manufactured at the plant and then compiled a "flow chart" (Figure 2). We can see that the "flow chart" combines organically the various work processes in the trial manufacture into one entity, revealing clearly and accurately the relations between the working processes and with absolute clarity showing up the main and subsidiary contradictions which influence the work cycle. A work cycle of this type covering the trial manufacture of a product will in general extend from about half a year to 1 year, for some even longer, but it can be more or less divided into 25 work processes. The processes in the chart represent the

actual processes as they were recorded after trial manufacture of these types of products. Some may ask: "Since manufacture has been completed, why still draw up charts and analyze?" Our objective is to try to find out from it general laws, find certain problems and prevent that the same mistakes will be made in future.

From an analysis of the work processes in the 25 work process categories, we can at least discover the following problems:

In the lines for main and secondary contradictions in the "flow chart," the periods for preparation of manufacture (including technology, materials, forging and casting items) are comparatively long, taking up one-half and even more than one-half of the total manufacturing period. Frequently we have the following situations: While the ordinary parts have been about finished, the machining of the main part is only just being started. Plans for a product that requires half a year or a year to complete are often submitted to the factory only the same year. Design plans are presented the same year and completion is requested the same year. But acquisition plans for raw materials designated by the state must be submitted 1 year in advance. The very way the production plans are submitted to the factory lacks systematic planning and must of necessity cause contradictions between material supply and the planned schedule for completion, thereby causing delay to the manufacturing period.

For example, in the key part for the manufacture of product L, there is one part which according to original design required material A. But there is little of this material produced in our country and the materials department of the factory spent several months without finding a source for it. Then the designing personnel agreed to the use of material B as a substitute. Accordingly: contacting the cooperating forging plant → technical preparation at the cooperating forging plant → obtaining material B and sending it to cooperating plant → forging → heat treatment → arrival of the forged item at the factory. In this way another 4 months were spent. To prepare the forging of only this one part, a whole year was spent. This is a fairly classic example that is really of representative character.

In the trial manufacture of a product people frequently do not pay serious attention to the preparatory stage, considering the machine manufacturing part more important and giving that part their special attention. But if the preparatory work fails to be completed in time due to plan drawings not reaching the machine workshop and if this waste of time is not given attention we will be groping in the dark when the time comes to organize production.

The "flow chart" makes us realize that wastage of time in the early stages of planning and preparation of the trial production can be of worse consequences than if it would happen during the manufacture.

"Catch up early, don't wait to catch up," is a good principle. The problem is to catch up with the pace of the progress. The work of preparing production is an extremely important part within the whole scheme of trial manufacture.

The "flow chart" makes us also realize that there are many aspects to the way of raising effectiveness and of reducing work time. For instance:

(1) In the lines of main contradictions there are many sectors with large hidden potentialities that can still be tapped. If we determine the technical personnel at the time of completion of half of the design plans for the production of these products, this would have many advantages: Firstly, in work processes 2 and 3, 5 weeks could be saved. Secondly, contacts for forging and casting items by outside cooperating plants can be taken up in advance and with work processes 12, 19 and 20, 6 weeks could be saved. Thirdly, due to the fact that at the time of planning the technical staff will participate in some of the technical preparations, orders for material can be submitted very early, or it can be suggested in the planning stage that material be used which is available at the factory so as to avoid interim applications or appeals to other factories for help. In this way at least 6 weeks could be saved in work process 21. From the mentioned three items, the preparatory time of the trial manufacture could be curtailed: $5 + 6 + 6 = 17$ weeks and the total period of manufacture thus cut by one-quarter. Fourthly, if it can be effectively arranged to have the drawings technically checked in advance, this would reduce contacts during construction and amending plans, which would also be very much welcomed by the planning department. This way it appears the preparatory technological work of the technical personnel has two stages: the first stage is participation in the planning of the product; the second stage is implementation after the drawings have reached the factory. Outwardly, it may look like lengthening the technical preparation of production but in reality, with only a little extra time and energy spent by the technical personnel on the first stage, the pace of production preparation can be greatly accelerated, thus considerably reducing the overall time for the trial manufacture. As a whole, this would be extremely beneficial.

(2) In the lines of secondary contradictions there are also large hidden potentialities that can be tapped. For example: in product 007 there is a kind of bronze which had never before been cast at this writer's factory. If test casting had been performed with this material before the drawings were sent to the factory, the time in work process 15 could have been reduced.

(3) Had we extensively used combination fittings in work processes 17 and 18, we could have greatly reduced designing and manufacturing special tools and would have reduced manufacturing costs.

(4) If we break up the machining of important parts, work processes 16 and 23, and subject the separate items to analysis, we would find that the production time of testing rods for parts was quite long, in general about 1 month, which is an extreme waste of time. The main reason was that nobody, from top to bottom, gave much attention to it, always regarding testing rods as not being the product and therefore of no importance. But it was not realized that the manufacture of testing rods wasted 3 weeks and that the manufacture of the parts was correspondingly delayed 3 weeks. The parts that required these testing rods were frequently key parts for which processing time was comparatively long. To squeeze out 3 weeks from the processing of parts is a very hard job, but to speed up the manufacture of testing rods is something that can be easily achieved.

Considering the different conditions of different products we can also, in other lines of production, gather experience, improve work and find various ways to raise effectiveness.

The above conditions have been discussed with this writer's factory in mind. Because conditions differ, my remarks cannot be uncritically transferred for application in the case of other factories. However, this writer believes that this trend of thought and the analytical method may still have a universal significance.

To sum up the above, launching analytical work in enterprise management is above all an appraisal of plans, in the final analysis an appraisal of reality, testing and verifying through practice. However, it is particularly important for the appraisal of economic effectiveness of certain plans. With a correct advance appraisal we can avoid a great amount of waste and adopt the best method to achieve the anticipated objective. In the opposite case, if we give no attention to a correct appraisal of the plan and defects turn up later, work will by that time have already suffered harmful consequences.

In summary, what we aim at is systematic and well-planned study and exploration and we do not want short-sighted study methods which look only at what is immediately in front of one's eyes. By our method we will be able to discover uninterruptedly anything that needs reform and we will furthermore be able to grasp year by year every good opportunity to raise work effectiveness and labor productivity. By this method it is possible to apply our time and energy to a most valuable cause, though it may not be the most conspicuous one (as exemplified in the above-mentioned cases of the manufacture of testing rods and the hoisting and conveying). These methods can nurture in man the custom of continuously calling in question the prevailing old methods and old concepts, so that man will overcome complacency and the inertia which keeps him sticking to the old ways instead of continuously grasping the objective laws of production and strive to do the work better and ever better.

Key:

- a. Number of work processes
- b. Work items
- c. Work process extends over (weeks)
- d. Time elapsed (weeks)
- e. Actual run of work
- f. Indicates line of main contradictions
- g. Indicates line of contradictions of secondary importance

The 25 items of work, numbered 1 to 25, are:

- 1. Planning the work
- 2. Obtaining drawings from factory
- 3. Determining technical staff in charge
- 4. Drawing up parts production process
- 5. Drawing up flow-chart for main parts production
- 6. Obtaining materials for general parts models
- 7. Machine processing of general parts
- 8. Drawing up detailed list of materials and items to be obtained outside own factory
- 9. Preparing materials not in stock and items to be obtained from outside own factory
- 10. Drawing up detailed list of items to be obtained by cooperation with other factories (such as certain [rubber] parts, springs, made to order)
- 11. Processing of items obtained by cooperation with other factories
- 12. Drawing up detailed list of items to be forged or cast
- 13. Drawing up foundry technology and preparing wooden patterns
- 14. Forging at own plant
- 15. Casting at own plant
- 16. Machining of forged and cast items at own plant
- 17. Designing of tools and fixtures and drawing up their technology
- 18. Finishing of tools and fixtures and their fitting
- 19. Determining items for forging and casting by cooperating factories
- 20. Arranging contacts for forging and casting by cooperating plants
- 21. Preparing materials for forging and casting by cooperating plants (or manufacturing of pattern)
- 22. Manufacture and heat treatment by cooperating plants of forged and cast items
- 23. Machining of items received from forging and casting by cooperating plants
- 24. Overall assembly of product
- 25. Delivery for testing

8453

CSO: 4006

GENERAL ECONOMIC INFORMATION

'BEIJING DAILY' REPORTS ON NEW MOVEMENT TO INCREASE PRODUCTION

Beijing XINHUA in English 0211 GMT 11 Jul 79 OW

[Text] Beijing, July 11 (XINHUA)--Well over 1,200 leading officials from Beijing's economic and industrial departments are working in factories to help increase production in the second half of this year, reports the BEIJING DAILY today.

According to the newspaper, the Beijing municipal government has recently called for a mass movement to invigorate the drive to increase production and practise economy by summing up experience and pushing forward socialist emulation between factories. Many factories have held congresses of workers' representatives, at which officials and workers have discussed ways of following up the municipal government decision.

Along with the news report on the frontpage of the newspaper is a commentary which specifies the aim of the current endeavour as follows:

One, to clear the way for wide application of good experience in improving production and management;

Two, to discover outstanding collectives and individuals, especially young and middle-aged managerial personnel who are efficient and skilled at their work;

Three, to promote wider use of scientific research from individual factories.

CSO: 4020

GENERAL ECONOMIC INFORMATION

SHANGHAI INDUSTRIAL OUTPUT FOR JANUARY-APRIL 1979

Beijing BEIJING RIBAO in Chinese 24 May 79 p 4

[Article: "Shanghai Industrial and Communication Front Gains Encouraging Results From Increasing Production and Practicing Economy"]

[Text] This year, in the work of economic readjustment, the industrial and communication front of Shanghai launched a movement of increasing production and practicing economy by laying emphasis on good quality, high output, multiple variety and low consumption, and gained encouraging results.

In the first 4 months of this year, the total industrial output value of the municipality increased by 5.8 percent as compared with the same period of last year. Among the 85 products listed in state plans, 64 gained increases, including 31 with increases of over 10 percent as compared with the same period of last year. Railways, ports, Zhangjiang navigation, long distance buses and urban communication increased their volume of transportation as compared with the same period of last year. The volume of shipping through ports increased by more than 16 percent. What is even more encouraging is the appearance of a new phenomenon of "five more and five less," that is, more short-term products, less long-term products; more products of middle and high grades, less products of low grades; more popular goods, less unpopular goods; more products of fine quality, less products of poor quality; and more products for foreign markets, less products unsalable abroad.

9039

CSO: 4006

GENERAL ECONOMIC INFORMATION

SHANGHAI COMMENDS ADVANCED INDIVIDUALS, COLLECTIVES

Beijing XINHUA in English 0154 GMT 11 Jul 79 OW

[Text] Shanghai, July 11 (XINHUA)--Shanghai's Departments of Industry and Communications sponsored a mass rally in late June at which 1,600 factories and enterprises were designated advanced collectives and 1,700 workers, cadres and technicians were given the titles of model worker or advanced worker and commended by the Shanghai Municipal Committee of the Communist Party of China and the Shanghai Municipal Revolutionary Committee.

The Shanghai Clock and Watch Company, one of those commended, is trying to turn out more small women's watches and calendar watches. Output from January to May increased over 1978's like period by 12.4 percent for watches and 30 percent for clocks. Several new products are being manufactured, including medium-sized women's watches, transistor clocks and other clock models.

Liu Sulan, a 23-year-old worker from Shanghai's No 1 silk mill, was chosen as a model worker. She has overfulfilled her production quotas every month since she entered the mill 5 years ago. In 25 months running she has turned out 100,000 metres of silk without a flaw.

Engineer Shou Jinfa, who is the deputy director of Shanghai's No 2 plastic products plant, has succeeded in trial-producing a granular material for making polyethylene cable casings. The quality of this material approaches advanced world levels.

Lou Xin, a young worker at the Shanghai No 2 machine tools plant, was chosen as a model worker for the first time. Since 1971 he has worked as a troubleshooter on the control installation for the high-precision photoelectric tracing engraving machine. He has also designed and assembled several digital-controlled lathes. He entered the plant after his graduation from junior middle school in 1971. He has completed several college courses by self-study, including higher mathematics, English and Japanese. He recently contributed a paper on digital-controlled lathes to the Shanghai Scientific and Technical Association and the Shanghai Electrical Engineering Society.

GENERAL ECONOMIC INFORMATION

BEIJING INDUSTRIAL OUTPUT FOR FIRST QUARTER 1979

Beijing BEIJING RIBAO in Chinese 11 May 79 p 1

[Article by Ding Yushao [0002 3768 0508]: "Encouraging Situation of Increasing Production and Practicing Economy on Beijing Industrial Front"]

[Text] Since April this year, on the industrial front of Beijing Municipality, the broad cadres and masses further implemented the spirit of the 3d plenary session of the 11th Central Committee of the Chinese Communist Party, launched deeply the movement of increasing production and practicing economy. The situation is encouraging.

From January to April, the total output value of all industries in this city increased by 6.4 percent as compared with the same period of last year; the output of 77 percent of products fulfilled more than one-third of their annual plan. The output of steel materials, petroleum products, synthetic rubber, caustic soda, acetylene, chemicals, electric generators, trucks, walking tractors, electronic calculators, bricks silk piece-goods and sewing machine increased by more than 10 percent as compared with the same period last year. The quality indexes of 85 percent of products and consumption indexes of 80 percent of products matched or surpassed the best records of their enterprises. Many enterprises also improved their labor productivity by increasing their profits and reducing cost of production.

The broad staff members and workers of the departments of textile industry made efforts to increase varieties and patterns of products for the market. Some enterprises could not sell their goods easily and quickly readjusted their products; others could not meet the demand of the market and made effort to increase production. The 2d Bureau of Light Industry of Beijing Municipality found that the demand for small commodities fluctuated greatly according to needs of the people, held an exhibition of 223 new products of creative designs, and asked people from commercial circles to make appraisal. Prizes were awarded to 97 products. At present, preparations are being made to produce them for the market. The "1 June" Shoe Factory introduced a new variety of shoes made of chemical fibers, and delivered goods directly to retail stores.

From January to April, they added 15 varieties and 20 patterns of their products, to the welcome of the buyers. The workers and technicians of record factories tried their best to meet the demand of the market. As the factories could not install new equipment quickly, they improved the process of punching discs by shortening the time of operation by 1.1 seconds, increased the output by 260 discs per hour and provided the market with more records.

By improving quality, reducing consumption and tapping potentials of enterprises, the industrial workers are trying to make more contributions to accelerating the pace of modernization. The Yanshan Petrochemical Engineering Head Company paid great attention to safe and steady operation. From the beginning of this year, the number of accidents decreased by 48 percent as compared with the same period of last year; the perfection of equipment was improved by 96 percent; and the leakage of sealings was reduced to 0.117 percent. These are better than the standards set by the ministry and the conditions of competition for the nation's nine major petrochemical engineering enterprises. With higher standards of operation, they increased the output of its first grade products, and made 190,000 yuan of additional profit. The Woolen Textile Mill No 2 has many varieties and patterns of products only 68 percent up to standards. This year, they have intensified technical control and put a strict check on operation. From January to April, the mill produced 301 color patterns, of which only one was below the standard, 99.7 percent was up to standards.

All industrial bureaus further readjusted the management of enterprises, and made them do their economic work increasingly meticulously. This year, the capital Steel Company carefully analyzed the economic activities at the two levels of the company and its factories, not only found beforehand all unfavorable factors which would affect production and increase cost of production, but also analyzed favorable conditions and potentials, stipulated measures to overcome the unfavorable factors, and immediately mobilized the masses to enforce these measures. In April, they cut down the cost of production by more than 100,000 yuan from one single item of peat and strained gas ash containing iron used in ore sintering; thus, they used resources fully by changing harmful things into useful things. To save heavy oil and coke, they introduced a technological measure of spraying coal dust in blast furnaces. In April, the consumption of oil for each ton of cast iron was reduced from 14 kilos in March to only 8 kilos. Since the beginning of this year, this steel company maintained its advanced level in the country by means of the coefficient of utility and the rate of coke of blast furnaces and the percentage of cast iron up to specifications. This steel company has also mobilized its technical personnel and managing cadres to conduct scientific experiments, determined the best period of service of converters for steel making, and tried their best to carry out production under most economical and rational conditions. To achieve scientific management, the company has also improved the work of measurement and laid down all the quotas. The steel works strengthened its management of fixed quotas on the quantity of technological rejects, and reduced the quantity of steel rejects from the monthly average of 385 tons in last year to 100 tons this year. In April, the company would, according to an tentative estimate, increase its profit by 20 percent, to be surrendered to higher levels, as compared with the same month of last year.

GENERAL ECONOMIC INFORMATION

IMPORTANCE OF ECONOMIC MANAGEMENT STRESSED

Beijing JINGHI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 1, 15 Jan 79
pp 60-61, 17

[Article by Niu Zhonghuang [3662 0022 7806]: "Economic Management Is a Branch of Science"]

[Text] 1. What Is Economic Management?

Economic management is the work of organizing, directing, supervising and adjusting all economic activities throughout the entire process of social production (production, exchange, distribution, consumption).

It comprises a systematic organization and an administrative function. For instance, with reference to the production process, administrative control is necessary for the conduct of socialized production. Wherever several people work together, administration is necessary. This kind of administration demonstrates a systematic function of planning production, organizing labor, directing and coordinating every sector of production. Marx said: "All combined labor on a larger scale requires more or less a directing authority in order to secure the harmonious working of the individual activities and to perform the general functions that have their origin in the action of the combined organism, as distinguished from the action of its separate organs. A single violin player is his own conductor, an orchestra requires a separate one." ("Kapital," Vol 1, "The Collected Works of Marx and Engels," Vol 23, p 367)

The larger the scope of the combined labor, the more meticulous and complex becomes the division of labor and cooperation, and the more meticulous, intricate and important becomes administrative control. Already in handicraft enterprises the combined labor, with division of labor and cooperation, makes administrative control of the enterprises an indispensable condition for the conduct of production. However, generally speaking, the scope of production in handicraft enterprises is fairly limited and production technology and division of labor are also comparatively simple so that administration is also fairly simple. Production conditions in modern industry are completely different. Modern industry employs machines and whole systems of machinery. Not

only is technology complex and the internal division of labor in the enterprises very intricate, but the degree of socialization is high and the social interrelationship has spread much wider. The administration of modern industry has therefore become much more complex and much more important as compared with the administration of handicraft enterprises.

This is the case with the administration of production processes, but also the case with the administrative control of the overall process of the entire production as a whole.

2. The Objective in the Study of Economic Administration

There are three opinions as to what constitutes the objective in the study of economic administration: (1) it is most important to study the question of productive forces; the importance of studying the rational organization of the productive forces must be stressed; (2) it is most important to study the production relations, that is, the importance of studying the economic relations in the production process must be stressed; (3) it is most important to study the superstructure, as, for instance, the concentration and decentralization of authority, its policies in planning and pricing, in finance and taxation, etc. I am inclined to think that all three aspects must be studied; it would not do to involve oneself only in one aspect, which would have marginal scientific nature. This means that the study of economic administration, guided by the theories of Marxist political economy, must master the lawfulness of economic administration in its study of the laws in the contradictory movement of productive forces and production relations. It entails political economy as well as organization and technology of the productive forces. We may express it this way: The objective of the study of economic administration is to find a way of rational organization of the productive forces, of unceasingly perfecting the relations of production and of adjusting the superstructure in accordance with the demands of the time so as to meet the needs of the expanding productive forces. Of course here there is also one aspect that must be particularly emphasized. Speaking from the standpoint of the administrative control of the entire national economy, the question of economic administration is mainly concerned with the question as to how to correctly regulate, consistent with the objective laws of economy, the economic relations between industry, agriculture, commerce and the communications and transportation industry, between the state and the enterprises, between the state and departments and local regions, between the various departments, between regions, between departments and regions on the one hand and enterprises on the other hand, and between the various enterprises, so as to promote the development of productive forces. Speaking from the standpoint of the administrative control of the entire industry, it is more or less the same, but speaking from the standpoint of the administration of a factory, conditions are different. There, a great deal of effort must be devoted to the production process, to solve questions of the rational organization of the productive forces. However,

administering the organization of productive forces entails both administration of the human element and administration of the material elements. Undoubtedly, under certain material and technological conditions, man is the basic factor and man's productive activities also constitute the social production. Man must cooperate with other men in production and must exchange labor. This results, objectively, in complex relations (such as prices, profits, bonuses, loans, contracts and other such economic problems) within the factory between this group and that group of workers, between workers in direct production and administrative and technical personnel, between leaders and those being led, between the enterprise and its staff and workers, and also between the enterprise and the state, departments, regions and between the various enterprises themselves. If these problems are not solved satisfactorily, the organization of the productive forces will be defective. Therefore, speaking from the viewpoint of Marxist political economy, the objective in the study of economic administration cannot only be the problem of organizing the productive forces (although this question is of highest importance), also not only the question of the superstructure; rather we must integrate these two aspects and study in depth the internal workings of the socialist national economy, the internal workings of industry, the internal workings of enterprises and also their mutual economic relations and production relations.

Most obviously, that does not mean that economic administration must not give greatest attention to the study of the productive forces. The rational organization of the productive forces is an extremely important part of the objective in the study of administration. As the level of the development of the productive forces differs, the demands on administrative control also differ correspondingly. For example, in quality control the handicraft industry mainly relied on the guarantee provided in the craftsman's personal experience and skill. Under the conditions of modernized mechanized production, reliance is placed on planning and designing the product, the efficiency of the equipment and the use of instruments and measuring devices which check and test each production process according to uniform quality standards. Under conditions of automatic production, reliance is placed on automatic controls. Modern scientific and technological development brings about a movement of administration away from organization of labor to permeate and expand into the technical processes. The technological administration is gaining more and more in prominence within the entire field of administration.

This of course also does not mean that economic administration must not pay attention to the study of the superstructure. There is a close link between economic administration and the superstructure. The conduct of economic administration cannot be separated from direction, policy, laws, the concentration and decentralization of authority, planning, as well as certain rules and regulations, etc. Only if these matters pertaining to the superstructure are consistent with the demands of the economic laws can they function as protecting and promoting production. This is

therefore also one aspect of the objectives in the study of administration.

3. The Social Character of Administration

There are two characteristic elements in capitalist administration. Marx said: Whenever the direct process of production assumes the form of a combined social process and does not show itself as the isolated labor of independent producers, it will of necessity generate the work of supervision and the work of management. It has, however, a double nature.

On the one hand all work in which many individuals cooperate necessarily requires the connection and unity of one commanding will, and this performs a function which does not refer to fragmentary operations, but to the combined labor of the factory, like that of a director of an orchestra. This is a kind of productive labor, which must be performed in every mode of production requiring a combination of labor.

On the other hand, quite apart from any commercial department, this work of supervision arises in all modes of production which are based on the antagonism between the workers as the direct producers and the owners of the means of production. To the extent that this antagonism becomes pronounced, the role played by the supervision increases in importance. ("Kapital," Vol 3, "The Collected Works of Marx and Engels," Vol 25, p 431)

In volume 1 of his "Kapital" Marx clearly states: "The control exercised by the capitalist is not only a special function due to the nature of the social labor process, and peculiar to that process, but it is at the same time a function of the exploitation of a social labor process, and is consequently rooted in the unavoidable antagonism between the exploiter and the raw material he exploits." ("The Collected Works of Marx and Engels," Vol 23, p 368)

The dual nature of capitalist administrative control is determined by the dual nature of the very production process that it controls. The capitalist production process is on the one hand a process of social work manufacturing certain products, on the other hand it is a process to multiply the value of capital.

The authority of administrative control in capitalist enterprises is subordinated to capital, it shows that it functions for capital and has become an attribute of capital. "It is not because he is a leader of industry that a man is a capitalist; on the contrary, he is a leader of industry because he is a capitalist." ("Kapital," Vol 1, "The Collected Works of Marx and Engels," Vol 23, p 369)

Socialist administrative control is of a basically different nature.

Under conditions of socialism, the labor process as such in modernized large-scale production still requires administrative control, and furthermore requires even broader, more scientific and stricter controls than capitalism.

However, under conditions of socialism, the following three factors have changed: (1) the public ownership of the means of production has replaced the capitalist "dog eats dog" competition and its anarchic production methods with a planned, well-proportioned development of the national economy; (2) the relationship of exploiter and exploited has been replaced by a relationship of comradely mutual cooperation; (3) tyrannic rule and starvation discipline have been replaced by democratic administration and conscious discipline. The dual nature of administrative control under capitalism, that Marx mentions, has therefore undergone a change in character under the socialist system. The so-called change in character is mainly: (1) there no longer exists the control function of the "work of supervision" engendered by the antagonism between exploiter and exploited, of which Marx talks; (2) there also does not exist what Marx called the "function of exploiting the social labor process" in administration. However, that does not mean that socialist economic administration is merely a question of organizing the productive forces and need no longer concern itself with solving questions of production relations. It also does not mean to say that socialist economic administration has no class character.

The socialist economic administration is by its very character the administrative control of the economy by the working class. We know that the socialist society has not at all abolished classes. Classes, class contradictions and class struggle still continue to exist. The remnants of the old exploiting class still exist. New bourgeois elements and counterrevolutionary elements can still appear. Cases of corruption, theft, speculation and profiteering as well as deliberate sabotage still occur frequently. Under these conditions the forces of old habits and the ideology of the exploiting classes will inevitably come to be mirrored in our economic administration. For instance, some of our leading cadres and administrative personnel often give themselves the appearance of something else than ordinary workers, they don't practice the principle of "eating, living and working with the masses" and even treat the masses in the condescending attitude of "old gentle-folks." There are some of our staff and workers who at times cannot truly and conscientiously visualize themselves as masters and cannot treat the masses as masters. Even in their own enterprises they treat the enterprise leadership as if they were the capitalists of olden times. These old influences are not consistent with the relationship of comradely mutual assistance between socialist workers and are hampering the establishment of the newly arising socialist relationships. If these old ideals are not deliberately changed we may see a bureaucracy

arise in our leadership and a hired hand mentality among the masses, which all would be an obstacle to the development of the socialist cause. All these are problems that require continuous efforts at solutions through a strengthening of ideological education and socialist administrative controls.

Under the conditions of socialism, the consciousness of the working masses has risen to unprecedented heights but we must also realize that, actually, work has not yet become the uppermost need in man's life but is merely a means to make a living. While advocating conscious discipline, administrative control still functions as a kind of supervisory work. But this supervisory work does not reflect a relationship of exploiter and exploited but rather a comradely supervision. It is furthermore a mutual supervision of mass character built on the foundation of a uniformity of basic interests, a mutual supervision of mutual encouragement, promoting an uninterrupted consolidation of socialist production relations and a well-developed and perfected mutual supervision.

8453

CSO: 4006

GENERAL ECONOMIC INFORMATION

SMALL LOANS RELEASED TO INDUSTRIAL ENTERPRISES

Beijing BEIJING RIBAO in Chinese 24 Apr 79 p 1

XINHUA dispatch 23 Apr 79: "Enterprises Use Small Loans To Gain Quick Results of Renovation and Tapping Potentials"]

[Text] Our staff reporter He Zhuoxin [0149 0587 2450] reports: Recently I heard from some comrades of Beijing municipal industrial front that Beijing Municipal Bureau of Finance had released small loans to industrial enterprises of whole people's ownership, and helped them to carry out technical renovation and technical reform and tap potentials of production, with quick results and great success. Last year, all units having used small loans remarkably raised their output and increased profits which were surrendered to higher levels.

The Beijing Municipal Bureau of Finance had last year granted totally 21.13 million yuan of loans for 423 projects undertaken by enterprises of whole people's ownership in 11 lines of trade. These enterprises used small loans to technology, quickly raised their productive capacity and increased output and profits. According to incomplete statistics, from these projects the state received last year additional profits of 49 million yuan and additional revenue of 5.36 million yuan. The total sum was equal to 2.6 times the total amount of loans.

The procedure was as follows: First, an enterprise of whole people's ownership submitted an application for loan, the Bureau of Finance verified all the particulars on the technical requirements, sources of building materials and manpower for the project, and made sure that it would have quick results before the bureau approved the loan. When the project was completed, the enterprise gained profits. From the profits, the enterprise drew money to repay the loan. Generally loans expire after the period of 6 months of one year. The amount of each loan varies from several thousands to tens of thousand and even over a hundred thousand.

The small loans are used mainly to help enterprises solve their problems in the following five fields:

1. To align the production procedure and raise production capacity.
2. To renovate obsolete equipment and increase productivity.

3. To improve the alinement of existing equipment, streamline the production procedure and expand production capacity.

4. To achieve comprehensive use, minimize pollution and reduce consumption of raw and other materials.

5. To introduce technical measures and improve quality of products.

How could small loans produce such good results? Comrades of concerned quarters told your reporter that one of the important reasons was the realization of the principle of managing economy according to objective economic laws. All loans must be repaid. We must deal with loans seriously; otherwise, it not only makes no profit but also loses the money. Because the borrower bears his economic responsibility, the cadres and workers of an enterprise must calculate the economic account and study the economic effect. According to the comrades of the municipal Bureau of Finance, all industrial enterprises in the municipality, which used small loans for specific projects, had mainly completed their projects last year. On the contrary, many of the renovation projects undertaken last year with state appropriations were not completed in time. Many comrades pointed out that at present there is a great deal of work to do in all fields, our country is still not rich, all enterprises do not have sufficient funds for renovation and reform; therefore, small loans will play a positive role, and should be popularized.

9039

CSO: 4006

GENERAL ECONOMIC INFORMATION

CALCULATING COST OF PRODUCTS DETAILED

Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 1, 15 Jan 79 pp pp 48-51, 47

[Article by Jiang Zhensheng (5592 2182 5116): "How Does a Production Team Calculate the Cost of Its Products?"]

[Text] The cost of production is the monetary expression of consumed means of production, that is of materialized labor and living labor expended on each unit of a commodity. It is a part of the value of the commodity. Strengthening cost accounting for commodities is the key sector in the general strengthening of economic accounting in enterprises. For rural people's communes, correct accounting and accurately analyzing the costs of agricultural products can be the only way to reduce the costs of agricultural products, the only way to avoid a mere groping in the dark in matters of business administration and the only way that will result in improving and strengthening all sectors of business administration, in increasing production and in increasing earnings. Besides this, the correct cost accounting as regards agricultural products is also of great significance for the fixing of prices for agricultural products, for a proper coordination of the economic relations between industry and agriculture and to evoke the socialist enthusiasm of the peasants.

However, up to now there are only a small number of agricultural communes in our country that conscientiously carry out good cost accounting and cost analyses. If we seek the reasons for this, we find the main reason to be the pernicious influence of the absurd theories spread by Lin Biao and the "gang of four," such as: "everybody's name is 'the public'; what use is there for accounting?" and "accounting is only to be done for political accounts, not for economic accounts." It is therefore necessary, in order to strengthen cost accounting for agricultural products, to expose and criticize in depth the "gang of four," to eradicate chaos and restore order, to widely propagate the significance of cost accounting, to foster the idea of cost accounting and to establish a system of cost accounting. In another respect, we must also under no circumstances lose sight of the fact that the people's communes still have a series of theoretical and practical problems that must be solved,

as to how to go about instituting cost accounting for agricultural products. For instance, in the method of calculating the consumption of means of production as related with the cost accounting method used in production brigades that had been previously brought up, the method of state farms was often uncritically copied, which was an excessively elaborate method and far removed from the present level of accounting in people's communes, therefore, objectively, very hard to carry out. As to methods for estimating labor consumption and costs, there are many different opinions and people cannot agree on one method. To solve these problems, we believe we have to work in two directions. In one way we must study how to reform the present system of accounting in the production teams in conformity with the demands for cost accounting. In another way we must study how to work out a scientific yet simple and easy to apply cost accounting system for agricultural products based on the accounting system at the production teams. The latter task is even more urgent. The present article is trying to present some rough and superficial views on these problems.

1. The objective of cost accounting for agricultural products in the production teams of people's communes must be determined according to the principle of "distinguish between the primary and the secondary; deal with each case on its merits; it is important to be meticulous and everything must be kept simple." For main crops, cost accounting must be carried out for each crop; for common crops groups of such crops may be made the subject of one cost accounting.

The economic key elements that make up the production costs of agricultural products are the consumption of means of production and the consumption of labor. The consumption of the means of production expresses the outlay for miscellaneous expenses. The consumption of labor is the remuneration of labor. The remuneration of labor is calculated by multiplying the working days with the unit cost per working day. The consumption of means of production and consumption of labor must be figured out separately and then entered into the costs of the various crops. After that, they may be added up to calculate the total production costs of the various crops and the unit costs.

(1) Calculating and Prorating of the Consumption of the Means of Production and the Consumption of Labor

The calculation and prorating of the consumption of the means of production refers to the calculation of miscellaneous expenses and entering them into the production costs of the crops. The consumption of the means of production can be divided into direct production costs and indirect production costs.

Direct production expenses comprise the following five kinds:

Seed expenses: This refers to the expenses for seeds actually used for sowing the crops. At present most seeds used in the agricultural people's communes are grown at the commune and not bought from outside the commune. Seeds bought from outside must be entered into the accounts at their actual costs (purchase price plus freight and incidental expenses). As to the self-grown seed, some suggest to calculate its cost at last year's price of the crop in question, some suggest using the state's purchase or buying-up price. It is our suggestion to use the state's purchase or buying-up prices so as to have these costs consistent with the accounting system.

Fertilizer expenses: Fertilizer comprises chemical fertilizer and farmyard manure. The chemical fertilizer must be calculated at the actual price at which it was bought. Farmyard manure comprises fertilizer brought to the field by the commune members, collectively accumulated dirt and sundry fertilizer, manure from collectively raised animals, etc. If farmyard manure from individual commune members has been paid for, the amounts that have actually been paid must be entered into the accounts. In case work points were credited, the cost at the daily rate for labor must be entered as fertilizer expense. For collectively accumulated dirt and sundry fertilizer, only actually incurred material costs must be entered. As to the manure from the stables of collectively raised animals, these are in general not to be priced and entered into the accounts. When calculating production costs they must be entered as fertilizer expense appropriately priced according to the cost of fertilizer contributed by commune members.

Agricultural chemicals: This refers to expenses for chemicals used in the prevention and control of plant diseases and elimination of insect pests on crops. Agricultural chemicals are in general bought from outside and must be priced at the actual purchase price.

Irrigation and drainage expenses: This refers to irrigation and drainage expenses paid by the production team to the organs in charge of irrigation. If the amount of water per unit area is more or less the same, the expenses must be prorated according to the actual acreage irrigated or drained of each crop. If the amount of water per acreage is not the same, the expenses must be prorated according to the actual quantity of water involved (or fixed norm of water involved) each time and the acreage drained or irrigated.

Tractor-plowing expenses: This refers to payments by the production team to the tractor station (team) for plowing.

The above five kinds of expenses are those generally spoken of as direct production expenses. Keeping original records for these expenses must be strengthened. As far as possible they must be taken into the cost accounts of agricultural products directly at the actual consumption value.

The indirect production expenses comprise the following five kinds:

Animal power expenses: This refers to expenses for fodder and forage grass, medicine for animals, horse-shoeing and other such outlay. If fodder and forage grass is produced by the commune itself it must be calculated at the state purchasing or buying-up prices; if bought from outside, actual outlay must be entered into the accounts. The quantity of fodder and forage grass consumed must be estimated by a standard norm and not by resorting to the method of "determining consumption by the [indefinite, nonstandard] trayful." The medicine for animals and various incidental expenses can be calculated according to the actual outlay recorded in the accounts. The stock of draught animals is at present usually renewed by the method of "a new one replaces the old." The animal power expenses therefore do not include any depreciation for draught animals. Draught animals serve several departments and several crops. Expenses for these animals must therefore be prorated for the various departments and crops. The ideal way to prorate is to first calculate for every animal the working day (horse, ox work day) cost (the cost of an animal work day can also be calculated at fixed prices) and then to prorate according to actual animal work day used in each department and for each crop. If there are no records of actual animal work days, one may prorate according to a scale worked out on the basis of items of animal power used in the various departments and for crops and the animal work norms.

Expenses for maintenance of production equipment and for the purchase of small farm implements: This refers to expenses for large (to be shared this year), medium and small repairs of fixed assets and for the purchase of low-priced, constantly consumed items. The use of this equipment and these tools is generally linked to the number of workers using them on the various crops and the expenses are therefore most appropriately prorated according to the ratio of working days directly used on the various crops.

Depreciation on fixed assets: Today in most areas the amount of depreciation for a particular year is calculated according to a comprehensive rate of depreciation and the total value of the depreciating assets. In figuring out production costs one may take the total amount of that particular year's depreciation and prorate it according to actual work days used in the various departments and on the various crops. The main fixed assets in some production teams are the animal power, agricultural tools and the stables; for these the expenditure can also be prorated according to the amount of time they were used in the various departments and on the various crops.

Administrative and other expenses: Administrative expenses refers to the outlay of the production team on administrative control. The "other" expenses refers to interests on loans, loss of weight during storage of grain, price difference in the sale of last year's commodities, etc.

These expenses are nonproduction expenditures; they must be shared according to the actual outlay recorded in the accounts and according to the rate of direct expenses in each department for each crop.

The above five types of expenses are generally considered indirect expenses. They must first, item by item, be summed up and then prorated. In suggesting the above standards for prorating the indirect expenses, consideration was given to have them fairly accurate and rational as well as simple and easy to apply.

Calculating and prorating the consumption of labor is prorating the working days (comprising working days for direct as well as for indirect production) and entering them against the various crops and calculating the share of work remuneration to be shared by the various crops according to certain standards of assessing work costs. Concrete measures are as follows:

Working days used in soil preparation, sowing, fertilizer application, irrigation, field management, harvesting and putting in storage, etc. are called direct production working days. The separate recording of direct production working days according to crops is actually called for, but due to the fact that we presently use the method of calculating work points on the basis of work done, only time of work attendance is registered and no record is made of type of work or section where work is performed. It is therefore difficult to record direct production working days according to crops. For this reason we propose that, based on the team's work norms for each type of work on the various crops, a "direct production working day norm" be assessed and that according to the rate that a certain crop uses "direct production working day norms" out of the total "direct production working day norms" for the various crops, the direct production working days be shared by the various crops. The formula for this calculation is as follows:

Direct production working days of a certain crop Total direct production working days of various crops

$$\begin{array}{l} \text{Number of direct production working days of} \\ \text{a certain crop calculated on the basis of} \\ \text{work norms} \\ \times \\ \text{Number of direct production working days of} \\ \text{various crops calculated on the basis of} \\ \text{work norms} \end{array}$$

Working days used on collecting and preparing fertilizer, feeding and care of farm animals, the upkeep of farm machinery and tools, operational administration (as assistance by cadres), etc. are called indirect production working days. If conditions permit, indirect production working days are to be recorded separately by item. If that cannot be done, they may be assessed according to the number of workers, number of days and

the work norms for that type of work. The method of prorating indirect production working days must be consistent with the method of prorating the corresponding expenditure.

After completion of the prorating of working days, they have to be appraised in monetary terms. There are many opinions on how to assess working days. In summary these opinions are of two kinds: One opinion suggests to assess according to uniform standard rates, for instance, at the average wage of production for workers at a nearby state farm or at the average rate of a working day cost at the commune in question. Another opinion suggests to assess at the actual working day value. Different objectives of the production cost accounting may permit the use of different methods of evaluating work. The purpose of cost accounting in agricultural people's communes--speaking from the standpoint of the commune itself--is to explore ways to reduce production costs and to increase production and increase crop yield. With this purpose in mind, we believe it is more appropriate to assess by employing the actual working day value (i.e., the working day value by income distribution). The reason is: Firstly, to introduce the actual work remuneration into the production cost of agricultural products can accurately determine the level of consumption and profit in production. Secondly, to assess by actual working day value can adjust the phenomenon of onesidedly high or onesidedly low assessment of labor consumption between various production teams (also including different years of the same production team) caused by the stricter or less strict application of the method of calculating work points on the basis of work done. Thirdly, it is more convenient to get the data for this method of assessment and the calculation is simpler, it is therefore very favorable for the launching of cost accounting work.

(2) Calculation of Production Costs of Agricultural Products

After the consumption of the means of production and consumption of labor are summed up according to crops, one can proceed to the calculation of the production costs of the agricultural products. In order to be able to analyze the production costs, one may also calculate three indexes, namely production costs per unit area, production cost per unit of product and amount of profit per unit of product (or ratio of production cost to profit).

The index for production cost per unit area can be calculated by dividing planted area by expenditure of means of material and labor remuneration:

$$\begin{array}{lcl} \text{Production per mu of land} & \text{Expenditure of means of production (yuan) +} & \\ \text{(yuan/mu)} & = \text{labor remuneration (yuan)} & \\ & \text{Planted area (mu)} & \end{array}$$

The index for cost per unit of product can be calculated by dividing the total amount of main products by the total production cost of the main

products. Since every kind of crop has principal and secondary products, it is necessary to figure out the share of production costs to be borne by the secondary products and subtract these costs from the total production costs of principal and secondary products together. Only in this way can we obtain the total production costs of the principal product. Due to the fact that there are different methods of calculating the share of production costs to be borne by the secondary products, there are two ways of calculating the production costs of the principal product:

1. If the value of the secondary product is to represent the production cost of the secondary product, the formula for the calculation of the unit cost of the principal product is:

$$\text{Cost of each jin of product (yuan/jin)} = \frac{\text{Total production cost (yuan)} - \text{value of secondary product (yuan)}}{\text{Total amount of principal product (yuan)}}$$

2. If the production costs of principal and secondary products are shared according to the ratio of their values, the formula for the calculation of the unit cost of the principal product must be:

$$\text{Total production cost of principal product (yuan)} = \text{total production costs (yuan)} \times \frac{\text{Principal product value (yuan)}}{\text{Principal product value (yuan)} + \text{secondary product value (yuan)}}$$

$$\text{Production cost per jin (yuan/jin)} = \frac{\text{Total production cost of main product (yuan)}}{\text{Total amount of main product (jin)}}$$

The amount of profit per unit is obtained by subtracting the unit production cost from the cost of a unit of the product:

$$\text{Amount of profit per unit} = \text{value of 1 jin of product} - \text{production cost of 1 jin of product}$$

A comparison of the profit per unit with the production cost per unit gives the cost-profit ratio:

$$\text{Cost-profit ratio percentage} = \frac{\text{Profit of 1 jin (yuan)}}{\text{Production cost of 1 jin (yuan)}} \times 100 \text{ percent}$$

The cost of production per mu of land, the production cost per jin of product and the cost-profit ratio are three interrelated indexes, while each reflects a different problem. With these three indexes it is possible to analyze fairly completely and fairly penetratingly such conditions as consumption of every kind, use of capital, volume of production and other economic results throughout the entire production process of agricultural enterprises. They also enable a fairly complete and

penetrating exposition and summing up of problems and experiences in the administrative control of operations and in technological administration, and enable a deep-probing analysis of the business conditions and results of the entire enterprise.

2. The work of instituting cost accounting in the people's communes must of course pass through a transition from the easy to the difficult and from the coarse to the precise. Although the above-described methods of production cost accounting have already been much simplified, they will still often not be possible for immediate universal application in the majority of production teams due to incomplete original records or norm data or because of the low level of proficiency of financial and accounting staffs. To explore even simpler methods of cost accounting is therefore still of important practical significance. In recent years agricultural people's communes at various places have in actual practice evolved a number of simple cost accounting methods. We must subject these simple cost accounting methods to scientific evaluation in the light of the historical conditions in which they were created and in the light of their effectiveness in actual practice; we must not in one sweep assess them negatively.

When calculating production costs of agricultural products, many production teams only figure expenditure on means of production and do not calculate remuneration for labor. Costs that are calculated in this way may be called cost of expenditure on agricultural products but not complete production costs. Because the monetary outlay for labor remuneration is not included, such accounting cannot have the effect of drawing attention to saving manpower. We must realize though, that even though they do not figure out complete production costs, these figures are of great usefulness, because the consumption of means of production is a very important component in the production cost of agricultural products. This type of cost accounting can help us find excesses or savings in the expenditure for means of production, therefore also the reasons for such excesses and savings and ways to reduce consumption. In the future the modernization of agriculture will cause the proportion of the consumption of means of production to grow larger day by day. Reducing the consumption of the means of production will more and more become an important sector of cost reduction of agricultural products, this will, as a result, also greatly increase the practical significance of this index, namely the calculation of the cost of expenditures.

In areas where grain is the main product, use is also made of the "cost of expenditure for grain" index to analyze economic activities. The grain expenditure cost index has as a target for its cost calculation the entire grain crop. All that is needed for the calculation is the data in the account books and there is no need to refer to any original records and norm data; this method is extremely simple. The method of calculation is as follows: (1) Add together as direct expenditure the sums remaining at the end of the year on the account books from all

expenses in the five areas of work of the production team, agriculture, forestry, animal husbandry, sideline production and fishery. Add together as indirect expenditure the sums remaining at the end of the year on the account books from depreciation, administrative expenses and other expenses. (2) From the total amount of direct expenditure take off the total indirect expenditure to get the rate of distribution of indirect expenditure. (3) From the agricultural production expense accounts remaining on the account books at the end of the year take off expenses for vegetables, cash crops and other such nongrain crops to figure out the direct production expenditure for grain. (4) Multiply the direct production expenditure for grain with the distribution rate of indirect expenditure, to obtain the indirect expenses to be borne by grain. (5) Finally, add together direct expenses for grain and the indirect expenses that grain has to share, divide by the total amount of grain and you get the index for the cost of expenditure for the unit of grain.

The index of expenditure for grain per unit is of a certain significance to check the level of consumption of means of production in the production of grain. However, due to the fact that the composition of the grain is different between different production teams and in different years within the same production team, this is not a very effective index for comparisons. To solve this problem, we must, when using this index for analyses, also use the index for the net product value of 1 jin of grain. The formula to calculate the net product value of 1 jin of grain is as follows:

Average price of 1 jin of grain (yuan) = total amount of grain harvest (yuan) ÷ total grain production (jin)

Net product value of 1 jin of grain (yuan) = average price of 1 jin of grain (yuan) - cost of expenditure per jin of grain (yuan)

If grain prices do not change, the rise of the net value of grain indicates a reduction in the costs of a jin of grain or the improvement in grain quality.

Any production team which is prevented by conditions from instituting production cost accounting for each crop separately, can use the cost index per unit of grain and the net value index per unit of grain as an index to analyze the economic results of grain production. Of course we cannot forever be satisfied with this condition; we must actively strive to create the conditions for complete cost accounting for agricultural products.

3. Cost accounting is complex and painstaking work. If cost accounting work is to be seriously instituted, it requires not only solving the problem of cost accounting methods, but also requires systematic organizational work. This work entails:

(1) The establishment of original records is necessary. The original records are the basis for the cost calculation of commodities. Without the necessary original records, it is impossible to calculate production costs. If the original records are inaccurate, we may get "correct calculations based on false account books." The consumption of seeds, fertilizer, fodder, fuel, animal work days, all kinds of labor work day consumption must therefore be conscientiously recorded as to where and for what purpose every item of consumption took place.

(2) A system of administrative control of necessary norms must be established. Every norm is the basis for the distribution of various expenditures, as it is also the basis to check human, material and financial consumption. Without norms, some expenditures cannot be distributed. With inaccurate norms, distribution of expenditure becomes irrational. It is therefore necessary, after relevant investigations and gathering of experiences, to assess and fix norms as equitable as possible for the consumption of seeds, fertilizer, fodder and fuel, also norms for work days for every kind of work on important crops, animal work day norms, norms for direct expenses per mu of land, and other norms.

(3) As cost accounting of production teams will be carried out outside the account books, special registers will have to be provided apart from the account books. The production cost registers must have special pages for each crop (for important crops) and for groups of crops (for less important crops). Each page must have a special column for each cost factor. The various expenses for crops and work days that can be directly entered from the original records shall be directly entered. The indirect expenses and indirect work days that cannot be directly entered shall first be recorded on separate pages and later prorated and entered.

(4) A system of normed allowances is being carried out to remunerate the labor of financial and accounting personnel of the production teams. If production cost accounting and analysis is instituted, extra time will be required of accounting personnel. It will therefore be necessary for production teams that institute cost accounting to appropriately increase the work day allowances for financial and accounting personnel.

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CSO: 4006

GENERAL ECONOMIC INFORMATION

BRIEFS

LIAONING INDUSTRIAL OUTPUT VALUE--In the January-May period, the industrial output value plan of the building materials enterprises at municipal and prefectural levels throughout Liaoning Province was overfulfilled by 8.6 percent, marking an increase of 13.2 percent over the corresponding period of last year. Of 16 major products, the output of 12 increased in varying degrees. Among them, the output of cement reached 2.5 million tons, some 20 percent higher than that of last year. [Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 8 Jun 79]

JILIN INDUSTRIAL OUTPUT INCREASE--The total industrial output value of Jilin Province in May increased by 7.5 percent as compared to April and by 0.7 percent as compared to last year. The total industrial output value for the January-May period showed a 5.9 percent increase over that of the corresponding period of last year. [Changchun Jilin Provincial Service in Mandarin 1100 GMT 12 Jun 79]

CSO: 4006

FINANCE AND BANKING

NEW FINANCIAL AUDITING AGENCY ESTABLISHED IN SHANGHAI

Shanghai JIEFANG RIBAO in Chinese 7 Jun 79 p 1

[Article: "Shanghai Municipal Finance Organizations Establish Auditing Agency"]

[Text] In order to insure discipline in financial and economic administration, finance offices at all levels throughout the city have recently established a financial auditing agency, staffed by professional auditors. Some days ago a financial auditing work conference was convened to study pertinent documents from the party central committee and the State Council, to promote the conduct of fine auditing work, and to discuss the implementation of an auditing work program during the latter half of this year. Attending the conference were leading comrades from the Planning Group of the Discipline Inspection Commission of the Shanghai Municipal Party Committee and from the Economic Inspection Department of the Shanghai People's Procuratorate.

Before the Cultural Revolution the city's finance and tax departments had no auditing agency to insure that finance and economic discipline would be given definite play in the thorough implementation of the party's financial and economic policies. During the Cultural Revolution, because of interference and disruption by Lin Biao and the "gang of four," extravagance and waste, fraud and deception, graft and embezzlement, and speculation and profiteering appeared in many units, causing great damage to the property of the state and the people. After smashing the "gang of four," a reconsolidation took place, and already the situation has been rectified. However, a few people still do not observe party rules and state regulations, and numerous breaches of financial and economic discipline have been discovered. In order to adapt to shifts in conditions, carry out adjustments, and take effective measures in finance and economics, it has become absolutely necessary to establish a financial auditing agency.

The responsibilities of the financial auditing agency are to transmit financial and economic policies of the party, initiate instruction in socialist legal institutions, and cite models of financial and economic

discipline; to adjudicate and investigate complaints from the masses regarding destructive financial and economic policies, as well as breaches of financial and economic discipline and cases of damages resulting from an adherence to the financial and economic system; to supervise and investigate the full implementation of financial and economic policies and discipline by state offices, organizations, enterprises, and service units, and resolutely struggle against all actions which cause either damage to state plans, extravagance and waste, or graft and embezzlement. The auditing agency must also support personnel at all levels of financial administration and accounting in faithfully carrying out their duties, launching work programs and, based on problems uncovered through audits, suggesting ideas for improving work and management methods. At present, the financial auditing agency, based on needs for national economic restructuring, must research and analyze significant signs and tendencies in breaches of financial and economic discipline, coordinate with pertinent departments, organize work forces, stress essentials, and investigate conscientiously. Each level of the party committee must strengthen its leadership of financial auditing work, give support to and show concern for the initiation of auditing work, and assist auditors in solving problems.

CSO: 4006

FINANCE AND BANKING

SHANGHAI BRANCH OF CHINA AGRICULTURAL BANK REINSTATED

Shanghai JIEFANG RIBAO in Chinese 2 Jun 79 p 1

[Article by Wu Kangnian (0702 1660 1628) and Li Anding (2621 1344 1353):
"Shanghai Branch of China Agricultural Bank Officially Reinstated"]

[Text] Based on the spirit of State Council notices, and with the approval of both the Shanghai Municipal Party Committee and the Municipal Revolutionary Committee, the Shanghai branch of the China Agricultural Bank has been officially reinstated. It opened for foreign business on 1 June 1979.

The China Agricultural Bank was reinstated to strengthen the management of agricultural support funds and to serve better in the high-speed development of agricultural production and the realization of the Four Modernizations. In the past, due to interference and disruption by Lin Biao and the "gang of four," several localities failed to abide with existing regulations in managing agricultural support funds or to investigate breaches of such regulations. Chaos in management produced considerable waste, embezzlement, excessively egalitarian allotments, and indiscriminate transfers of funds. With the reinstatement of the Agricultural Bank, this situation will rapidly change; the management of agricultural support funds will be unified and the handling of rural loans centralized.

CSO: 4006

FINANCE AND BANKING

CAPITAL CONSTRUCTION FUNDS, INVESTMENT BANKS DISCUSSED

Beijing JINGJI GUANLI in Chinese No 2, 15 Feb 79 pp 17-18

[Article by Ye Xiangzhi [5509 4161 3112]: "Suggest the Introduction of Loans for Capital Construction and the Establishment of Investment Banks"]

[Text] Raising the economic effect of investments in capital construction is of important significance to developing the national economy at high speed and accelerating the four modernizations. In some projects of capital construction in our country, the economic effect of investment is very good; however, not a few projects have taken too long a time and have brought about extravagance and waste as well as loss and damage to a very great extent. As far as the management of capital construction is concerned, there have been real problems of unlimited investments, indefinite periods of construction and no requirement for the repayment of funds. We cannot say that these problems are not related to the method of supplying funds for capital construction, which is close to the free supply system.

In past years, related departments have introduced "loans for specified cases of industrial products for export" and "loans for materials produced by collective ownership enterprises and for local construction," and there have been cases of capital construction financed by loans. Facts prove that there are many advantages to using capital construction loans for some projects of limited scale, short periods and simple work of construction. This practice can arouse the enthusiasm of those who are concerned about the effect of investment. First of all, it will strengthen the sense of responsibility of the units which undertake construction, and make them to place the focus of investment on increasing comprehensive productive capacity. At the time of planning, they will carefully calculate the economic effect; during the time of construction, they will pay attention to practicing economy and shortening the period of construction; and after the project is completed and put into operation, they will pay great attention to surpassing the planned capacity as early as possible and bring into play the effect of investment. Next, it will also make the bank conduct careful investigation before granting loans, examine carefully the applications for loans and inspect construction projects after loans have been granted. Thus, the bank must not only exercise its supervision more

carefully but also enlarge the scope of its supervision. Such supervision will far exceed the supervision over the appropriation of funds for capital construction. At the same time, this method is comparatively more adaptable and flexible. When building materials and labor are assured, products will be surely in demand on the market, and loans can be refunded in stipulated periods, the bank should make investigation and grant loans at any time. Therefore, if this method is adopted for small and medium-sized projects of capital construction, the commissions of planning and construction of the state and of provincial and city levels can concentrate their energy to grasp construction projects of great significance to national economy and the livelihood of the masses. For capital construction, it is acceptable to steadily enlarge the practice of credit and loans, which is an important channel for raising the economic effect of investment.

Where do funds of loans for construction come from? There may be three sources: First, according to the principle of repayable appropriation, charges on fixed capital of state enterprises may be appropriated as funds for construction loans from the national budget. Second, funds may come from the surplus of minimum deposits of enterprises as funds for major repairs and basic depreciation. Third, in the yearly budgets, a portion of funds may be appropriated from budgeted expenditure as capital construction funds according to needs and possibilities. Local treasuries may also issue a portion of their financial resources to local specialized banks for appropriation as capital construction loan funds, or as loans for special projects of capital construction (such as loans in support of the "5 small" industries, enterprises of communes and production brigades). The issuance of capital construction loans indicates that we can make use of credit as a tool to bring into play its role of supervision.

How to pay back capital construction loans? Some comrades often have their eyes on profits. I think that we should least touch the profits. Because it will be very difficult for these enterprises to find out how much profit actually derived from new construction. Even if an enterprise is a new project, it should also provide the state with accumulation. Therefore, we should raise funds for repayment of loans in the following ways: First, an enterprise may repay its capital construction loans with money which the enterprise should pay to the government as charges on its fixed capital according to the rule. Second, an enterprise may repay loans with money from a portion of funds for basic depreciation and funds for major repairs. As new projects generally need not undertake major repairs immediately, they may draw for repayment of loans a portion of funds reserved for basic depreciation and major repairs (at a percentage of decreasing by degrees). Third, enterprises entitled to reduction of and exemption from taxes according to state laws of taxation, under the guarantee to incur no loss, may reserve all or a portion of "tax money" for the repayment of loans. Fourth, when an enterprise has conspicuously increased its profits by using capital construction loans to enhance its productive capacity, it may draw 20 to 30 percent of its profits to repay the loans. According to my estimate, in future if the rate of fixed assets depreciation is raised, and if the annual charges on fixed capital are over 5

percent, money from these two items alone will be enough for the units of construction to pay up their loans within 10 years. The advantage of this practice is that not only will there be a steady source of money for the repayment of loans, but also there will be an assurance that most of the increase of profits from new projects will be surrendered to the state treasury; meanwhile, the enterprises will also reserve more funds for themselves. The interests of the state, the enterprises and the individuals are all taken care of.

As regards the organ of control, I think that it will be best to establish investment banks. As the nature of fixed capital, funds for basic depreciation and funds for capital construction are economically alike, it will be best for the investment banks to make overall arrangements. My initial suggestion is that the investment banks may do the following business:

1. The control of fixed capital. According to policies of the party, the investment banks should lay down rules and regulations for the control of fixed assets, make suggestions to strengthen the control of fixed assets, collect charges on fixed assets, sum up and exchange experiences of enhancing the use of fixed assets. In their routine work of control, the investment banks should have a good grip on the technical level, the extent of perfection and the comprehensive productive capacity of the enterprises' fixed assets in order to accumulate necessary data for correctly releasing loans and guiding enterprises in renovation and tapping potentialities.
2. The centralized control of compensation funds of fixed assets. The enterprises should centralize their deposits of funds for basic depreciation and major repairs with the investment banks. In case of shortage of funds, the enterprises may apply for loans from investment banks which will regulate appropriations among the enterprises.
3. The processing of loans for capital construction projects. According to economic plans and investment directions laid down by the State Planning Commission and the Ministry of Finance, the investment banks should distribute loans among their branches in various provinces, cities and autonomous regions. The branch banks should conduct properly their work of making investigation before granting loans, checking applications for loans and inspecting projects after loans have been granted as well as evaluating the effect of investments. They should also recall loans in due course and keep the loans in balance. As regards the use of foreign exchange to import equipment and technology and the settlement of foreign exchange, the Bank of China will handle all this work; but the investment banks will deal with imports, installations and loans of equipment.
4. The control of appropriations for capital construction. As we still lack experience in this field, the system of granting loans as funds for capital construction should be popularized steadily step by step. It should begin with small and medium-sized projects, and especially with units of light industry and tourism, so that we can accumulate experience.

Therefore, for the time being, some projects of productive construction require investments in the form of appropriation. The investment banks should undertake totally the business of construction banks.

5. Investigation and study and positive control over funds for basic construction. The investment banks should have a number of engineering and technical personnel who are well versed in affairs of basic construction plans in their economic and technical aspects, and to participate with these units in enhancing the economic effect of construction funds.

When the foregoing measures have been taken, the major activities of funds in China will take the following shape: The investment banks will control fixed capital funds; the People's Bank will control circulation funds; and the financial departments will control the distribution and redistribution of national incomes. The three sectors will depend on one another and also restrain one another. There are division of work and coordination. It will play a positive role in enhancing the economic effect of the use of funds in all fields.

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CSO: 4006

FUELS AND POWER

HYDROPOWER STATIONS BUILT IN ZHEJIANG PROVINCE

Beijing BEIJING RIBAO in Chinese 24 May 79 p 4

[Article: "Zhejiang Province Develops Small Hydroelectric Power Generation Very Quickly"]

[Text] From January to April this year, Zhejiang Province had newly built 92 small hydropower stations with generation capacity of 16,000 kw, more than double that of the same period of last year. At present, 170 more stations are installing generators.

The development of small hydropower stations effectively supports agricultural production. At present, the province has built totally 5,731 stations with a total generation capacity of 368,002 kw. These stations are distributed to some 1,800 people's communes in 56 counties (cities), so that more than 4,000 small county factories, commune and brigade enterprises and some 3 million peasant households now have power supply. In the whole province, about 60 percent of power supply for agricultural production comes from these small hydropower stations.

Zhejiang Province is short of coal and oil resources; however, there are many mountains and plenty of water with rich hydraulic resources. Proceeding from this special feature, the provincial party committee made the decision to grasp the construction of small hydropower stations as an important measure for the acceleration of the development of agriculture.

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CSO: 4006

FUELS AND POWER

BRIEFS

ZHEJIANG COAL PRODUCTION--After setting an all-time coal production record in the first 4 months of this year, the coal industry front in Zhejiang Province turned out more than 154,000 tons of crude coal in May showing a 30.9 percent increase over the average monthly coal output for the first 4 months. [Hangzhou Zhejiang Provincial Service in Mandarin 1100 gmt 25 Jun 79 OW]

LIAONING THERMAL POWER--During the January-May period, thermal power plants in Liaoning Province increased their power generation output by 10.1 percent as compared to that of the corresponding period of last year, and saved 100,000 tons of coal. [Shengyang Liaoning Provincial Service in Mandarin 1100 GMT 14 Jun 79]

SHANDONG COAL PRODUCTION--The local coal mines in Shandong Province prefilled their first half-year plans for coal production and tunneling footage by 12 and 17 days respectively. An extra 335,000 tons of coal were produced, and the total coal output was 10.76 percent higher than the corresponding period last year. The total tunneling footage reached some 113,400 meters, surpassing the planned target by 10.3 percent. [Jinan Shandong Provincial Service in Mandarin 2300 GMT 21 Jun 79 SK]

CSO: 4006

MINERAL RESOURCES

OILSTONE AND LIMESTONE DEPOSITS DISCOVERED IN ANHUI

Hong Kong ZHONGGUO XINWEN in Chinese 31 May 79 p 2

[Article: "Natural Oilstone and Large-scale Limestone Deposits Discovered in Anhui"]

[Text] In Anhui Province, after several consecutive years of searching out new sites for iron and coal mines, a lode of natural oilstone and two particularly large-scale deposits of limestone have recently been discovered.

The oilstone deposit is located in the siliceous rock of the Fengyang mountain area south of the Huai River. It lies in one to three stabilized layers and is of a high-grade abrasive material. In the past, our country has uniformly relied on importations of oilstone; only in the last few years have there been any domestic discoveries.

The two particularly large-scale deposits of limestone are located south of the Yangzi River at Tonglingshi and in Fanchang County, respectively. Limestone is an important resource for expanding the construction materials industry. Recently a geological survey verified that limestone reserves in Sanxing mountain near Tonglingshi reach 400 million metric tons. The deposit is of great depth and of fine quality. The reserves in Digangzhen, Fanchang County are 210 million metric tons. Because the sites of both these deposits are beside the Yangzi River, communication, transportation, and the supply of coal, electricity and water will be good and extraction will be convenient.

CSO: 4006

HEAVY INDUSTRY

FORMING JOINT OR SPECIALIZED COMPANIES IN ELECTRONICS SUGGESTED

Beijing JINGJI GUANLI in Chinese No 2, 15 Feb 79 pp 14-17

[Article by Zhou Muchang [0719 1970 2490]: "Organize Enterprises Into Specialized and Joint Companies"]

[Text] Organization of Enterprises

For specialization and coordination according to lines of trade and localities, the organization of scattered factories and mines into specialized or joint companies is the natural tendency of the development of modern industries, an objective prerequisite to the development of industries with high speed, and an important revolution from the backward management of small production to the scientific management of socialist production on a large scale. China's industrial reorganization is involved in many fields. This article presents some general ideas about how to organize specialized or joint companies of the electronics industry in our country.

I. Organization of Companies

The distribution, alignment, products, technology, technical development and management of our electronic industry are very complex. This complexity calls for the multiplicity of the form of organization of companies in the course of reorganization. It may be a local company, a company of more than a province or a city and a national company; it may be a specialized company or a joint company of several specialities; and a company may undertake production or give services. However, generally speaking, there are some basic types, such as a specialized company, a joint company, a general factory, a joint factory and an electronic technical service company.

(1) In a province or a city, factories making same kinds of products may be organized into a specialized company. For instance, factories making radar, telecommunication and navigational equipment, electronic measuring instruments, electronic mechanical equipment for special uses, electronic parts, semiconductor apparatus and electric vacuum apparatus as their specialities may be organized separately into specialized companies.

(2) In a province or a city, a certain product is taken as the central item of manufacture, factories making key parts and devices as auxiliary apparatus for the product and certain special materials for its manufacture may be combined to form a joint company. For instance, the electronic computer industry and the TV broadcasting industry can adopt this type of organization.

(3) A specialized factory and a factory outside the province or the city may be combined to form a joint company. For instance, if a province has only a few factories making radar and certain telecommunication equipment, they can be organized together with factories in neighboring provinces or cities. In this way, it will be possible to concentrate the personnel of research and design in a comparatively large area, make a rational division of work for the products of these factories, and centralize the production of parts and certain devices which are made with technological coordination.

(4) In a big city like Beijing, or in a province where the electronic industry is fairly concentrated, it is also possible to organize factories of different specialities into regional joint companies. These factories may not turn out products closely related to each other as principal and auxiliary apparatus; however, as their production, services and technological coordination may be centralized for maintenance, the use of tools and molds, foundries, electroplating, motive power and transportation, it will help to change the irrational situation where some factories do everything.

(5) In some municipalities subordinate to their provincial governments, such as Nanjing and Changshou in Jiangsu, Shenyang and Dalian in Liaoning, there are a number of factories turning out electronic products; however, it is not advisable to organize specialized or joint companies. It is possible to take a certain product as the central item (such as television receivers), and form related factories into a general factory, or organize factories turning out different products into a joint factory. The general factories or the joint factories are to be subordinate to a provincial company, under which branch factories or independent workshops may be set up.

(6) Electronic technical service companies. To facilitate the use of electronic technology in the departments of national economy, in large and medium-sized cities where industries are concentrated, electronic computer service companies and electronic measuring instrument service companies should be established gradually, to provide services of rental, installation, testing and maintenance of computers and instruments, or to train technical personnel for various departments. These companies are generally subordinate to provincial or city specialized or joint companies. National and comprehensive electronic engineering companies may also be set up, to undertake the design of electronic systems and render services of equipment alignment, installation, testing and maintenance for state key projects or key projects of national defense.

The foregoing companies are economic organizations formed by combining some scattered factories according to rational economic principles. With the progress of specialization and joint operation, the coordination of factories may be furthered in two directions: one is horizontal combination, by organizing together factories turning out products of same categories and factories making parts and devices for these products or working in technological coordination; the other is vertical combination, by organizing together not only these factories but also other factories making key electronic parts, semiconductor devices, electric vacuum devices and special materials to be used as auxiliary apparatuses. There are certain contradictions between these two combinations. The superiority of the horizontal combination is more conspicuous. Companies of vertical combination should take over some specialized factories making electronic elements and devices. For instance, the joint companies of the broadcasting television industry should include the making of picture tubes, loudspeakers, potentiometers, high reverse voltage tubes, high-frequency low-noise tubes, silicon pile and linear integrated circuits. The electronic computer companies should include numerical integrated circuits. Would this way disperse the centralized production of electronic elements and devices into scattered production on a small scale? It would not.

Because, radios, TV sets, recorders and computers are all electronic products of large-scale production, and require large numbers of electronic elements and devices. Moreover, the factories taken over by the companies will only make some key elements and devices which mostly or even totally serve as the parts of a complete machine. Therefore, these elements and devices are made on a large scale in accordance with rational economic principles. The formation of such coordination of production within a province or a city will have many advantages in management. Some cities subordinate to their provincial governments cannot create their own production groups so that production will not be dispersed. The production of complete machines and their elements and devices will be subjected to unified planning and comprehensive balance; it will be possible to organize production in time and effectively and shorten the lines of management. Technically, it will be easy to unify the production of elements and devices, and to develop production according to requirements of complete machines. The company can achieve unified accounting and avoid double payments of taxes and profits to the government; pricing can be coordinated within the scope of the company so that the cost of production of complete machines can be lowered. Of course, there must be necessary conditions for this vertical combination. In general, common elements and devices should still be managed by companies producing them; it is not advisable for the joint companies to handle everything by themselves.

The electronic industry is a newly emerging branch of industry of intense knowledge, many branches of technology, multiple production and continuous technical development; it is necessary to integrate closely scientific research and work of production. The specialized companies and the joint companies should set up efficient research organs; some factories should

also set up institutes for the design of products. Their tasks are to try to make new products, introduce new technology, new materials and new equipment, carry out technical renovation, popularize electronic techniques, standardize the procedure of operation, improve quality control, collect technical information in and outside the country, organize technical exchange and also study economic management.

II. Nature, Function and Authority of Companies

Both specialized companies and joint companies are economic organizations. They should carry out economic activities according to planned tasks assigned by the state and contracts signed with the state. They should exercise unified control over the personnel, finance, goods and material, production, supply and marketing of all factories subordinate to them, gradually transform the factories into enterprise units of independent accounting and put into practice an accounting system of two levels of the company and its factories. A company should not become an administrative office; otherwise, it would simply become an additional higher level controlling organ of the factories, instead of carrying out its economic activities.

When a company takes over factories originally subordinate to provincial, city and local authorities, the party and government organs should continue to take care of these factories for their work between the party and the people, workers' education and health, daily services and commodity supplies. Therefore, the local governments should receive certain economic benefits. For instance, a certain percentage of factories profits may be handed over to the local treasury; the factories should pay income taxes; a certain amount of products should be reserved from distribution for local needs; the factories should accept tasks of processing materials given by local authorities after they have fulfilled the state plans.

After the establishment of various companies, the provincial and city industrial bureaus will gradually change their functions. Due to the complexity of the electronics industry, industrial bureaus at this level still have their important role to play. In the future, they will have their major tasks to supervise the companies in their implementation of the policies of the party and government, to stipulate economic and technical policies for electronic industrial branches, to make recommendations to economic and legislative departments on legal matters, to stipulate plans for the development of the electronics industry in the province or city, to carry out negotiations and arbitration on problems of economic and technical coordination between companies and between factories, to organize the exchange of technical information, to conduct technical guidance, to grasp school education for training technical and administrative personnel, and to adopt emergency measures in case of unexpected difficulties.

The communique of the Third Plenary Session of the 11th CCP Central Committee points out that "one of the serious shortcomings in the structure of economic management in our country is the over-concentration of authority, and

it is necessary boldly to shift it under guidance from the leadership to lower levels so that the local authorities and industrial and agricultural enterprises will have greater power of decision in management under the guidance of unified state planning; big efforts should be made to simplify bodies at various levels charged with economic administration and transfer most of their functions to such enterprises as specialized companies or complexes." This is an important measure for the development of national economy. We believe that the companies should have the following basic authorities: (1) The authority of independent accounting. Economic activities should not be restricted by bureaucratic and local authorities, and should be guaranteed by contracts. The state should enforce "5 fixes" for the enterprises; the enterprises should pledge to fulfill the economic and technical targets laid down by the state. The companies and factories should have their right to reject empty plans which have no guarantee for raw and other materials, fuel, power and equipment. After the factories have fulfilled state plans, they have the right to arrange new production tasks to meet social needs with their surplus productive capacity and guarantee for raw and other materials. No governmental offices of higher levels may draw or appropriate funds, materials, equipment and personnel of enterprises. (2) Under the precondition of guaranteeing the implementation of state unified plans, the companies have the right to decide what products the factories should turn out, adjust the locations of factories and carry out industrial reorganization. (3) The companies should have their authority to expand reproduction of the factories. (4) The companies should distribute among their factories the targets of goods and material and labor power designated by the higher levels, and should have the authority to make readjustments. The companies should have permission to recruit new personnel according to qualifications. (5) The companies should organize unified sales and distribution of their products, and have the authority to negotiate directly import and export transactions with foreign merchants. (6) According to state policies on wages and the system of reward and punishment, the companies have the authority to adjust wages of workers within a certain scope, and decide the distribution of reward funds. (7) The companies have the authority to decide the appointment and dismissal of cadres of the factory level, and to transfer these cadres. (8) Within the scope permitted by state policies on pricing, the companies have the authority to decide the prices of certain products. When the companies have these rights and authorities, they can easily bring into play their initiative, enthusiasm and creativeness, and carry out their economic activities still more flexibly.

III. Break Down Several Boundaries

In organizing companies and furthering specialization and coordination, there are at present many obstacles in the system of economic management. We believe that it is necessary to break down the following boundaries:

(1) The regional boundaries. On the industrial reorganization in Beijing Municipality, the central leading comrades gave the following instructions:

In the future, further steps should be taken. We may also consider the unified readjustment of industries in Beijing, Tianjin and Hebei possible to play a still greater role. It is very true. We have made an investigation of the broadcasting television industry in these three places. To develop within a few years their productive capacity for making 2 million TV sets, 5 million radios and 1 million recorders, investment can be saved by one half if these three places can make unified plans for industrial reorganization and technical reform instead of carrying out reorganization and reform independently by themselves. Take the production of TV sets as an example, to reorganize their productive capacity for the production of 1 million TV sets, it will require an investment of less than 2 million yuan by unified planning. If these three places want to do it independently, by themselves, they must build some new projects and need investments of over 5 million yuan. Therefore, it is evident that breaking down the provincial and city boundaries and changing the present method of industrial administration according to the division of administrative areas and by administrative means is the objective prerequisite to the speedy development of our modern industries.

(2) The boundaries between central controlled factories and local factories. For instance, the Tianjin Radio Plant is mainly making telecommunication equipment; its TV workshop is one of our earliest production centers of TV sets.

At present, it is still one of the key TV workshops with very good facilities. This plant is a central enterprise, subordinate directly to the Fourth Ministry of Machine Building. Tianjin Municipality has established a broadcasting TV industrial company which has subordinate factories all as local factories. According to the present administrative system, the television workshop of Tianjin Radio Plant cannot work in coordination with other TV workshops under the city's unified planning; naturally it has created redundancy of the production of parts and components. Similar conditions exist in many other provinces and cities, to the disadvantage of organizing unified coordination of the specialized trade. In some cases, the central controlled factories may be taken as the core to organize specialized companies or joint companies [complexes]. Otherwise, the central controlled factories may be taken over by the provincial or city governments to organize unified companies together with local factories.

(3) The boundaries between trades. Last year, the Shanghai Municipality reorganized its industries and placed all factories making TV sets or auxiliary parts and components subordinate to the bureau of light industry and the administration of handicrafts under the bureau of electric instruments and telecommunications for the unified organization of the television company, and broke down the boundaries between trades. However, the status of the TV set workshop and the TV equipment workshop of Shanghai Broadcasting Instruments Factory remained unchanged; they are still subordinate to the Second Bureau of Machinery and Electricity. Though they are located in the same city, they could not be reorganized under the unified planning of the bureau of electric instruments and telecommunications in charge of the broadcasting TV industry. This situation is disadvantageous

to industrial development, it should be solved properly. In the future, with the development of specialized production, in a city or in a locality of concentrated industry, among businesses of productive services and technological cooperation, such as the work of maintenance, the use of tools and molds, foundries, electro-plating, communication and transportation, we should also break down the boundaries between the trades, gradually centralize these businesses and take the road of specialization and cooperation.

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CSO: 4006

HEAVY INDUSTRY

METAL SUPER-PLASTICITY TECHNIQUES BEING STUDIED

Beijing XINHUA in English 0138 GMT 14 Jul 79 OW

[Text] Beijing, July 14 (XINHUA)--China is developing the technique of super-plasticity for zinc-aluminum alloy, bearing steel and titanium alloy products. This technique, which was developed in the 1960's, is a comprehensive one embodying such metallurgical processes as heat and pressure to permit elongation or extrusion of the metal to several hundred or even a thousand percent of the original.

China has been studying the new technique since early 1970's and has applied it to isothermal forging, high-temperature extruding and pneumatic forming. Nearly 30 structure-complex and high-precision accessories have been manufactured using this method. Of these, eight accessories of instruments and metres and titanium alloy turbine discs are being made in quantity.

The phenomenon of metal super-plasticity was discovered about 50 years ago, but it was not until recent years that super-plasticity of some alloys gained industrial application.

The application of the super-plasticity technique can simplify the design of structures and is used for chipless metal cutting. Its application can save raw materials and lower production costs.

Today ten units in China, including the Electrical Engineering Research Institute of the First Ministry of Machine Building and the Beijing Nonferrous Metals Research Institute, are studying super-plasticity in various kinds of materials, techniques of bringing about super-plasticity and other super-plasticity mechanisms.

The study of metal super-plasticity is listed as a key scientific research item in the nation's outline for the development of science and technology. While concentrating on scientific research, the technique is to be popularized and applied step by step all over the country.

HEAVY INDUSTRY

NEW POWDER METALLURGY TECHNIQUE DEVELOPED

Beijing XINHUA in English 0247 GMT 17 Jul 79 OW

[Text] Shijiazhuang, July 17 (XINHUA)--China has developed a new powder metallurgy technique using fluidized gas reduction to make welding rods.

Ferric oxide flakes are the raw material and mixed nitrogen and hydrogen are used as reducing agent to reduce the ferric oxide to powdered iron. The reduction technique has a number of advantages. It can be carried out continuously and causes little pollution. In addition, it is not an expensive process to set up and produces quick results. The purity of the powdered iron can reach 98.5 percent.

Now the powdered iron produced by this means is being trial-used at more than 10 powder metallurgy and welding rod plants all over China. The powdered iron can be pressed into many kinds of magnetic materials, high-quality powdered welding rods as well as mechanical parts, such as bearings, gears and bearing sleeves for the assemblage of tractors, trucks and plane engines.

Since 1975 the Institute of Chemical Metallurgy under the Academy of Sciences of China has been studying this new technique together with the Cangzhou Chemical Metallurgy Experiment Plant in Hebei Province. First they conducted in the laboratories, systematic study of the technological principles and the function of the installations. Then they built in Cangzhou an industrial experimental installation with an annual capacity of 500 tons of powdered iron. It took 4 years to develop the technique after 300 experiments.

The current processing of China's powdered iron is still the 1950's technique of solid carbon reduction in tunnel kiln. The application of this new technique will open up a new way of manufacturing high-quality powdered iron and will aid the study of gas utilization in smelting iron.

CSO: 4020

LIGHT INDUSTRY

'HAINAN RIBAO' URGES IMPROVING PRODUCT QUALITY

Haikou Hainan Island Service in Mandarin 0430 GMT 12 Jul 79 HK

[Report on Hainan Ribao commentator's article: "Finding a Way Out Through Product Quality and Variety--Third Talk on Quickly Whipping Up an Upsurge of the Movement To Increase Production and Practice Economy"--date not given]

[Excerpts] The article noted: The report on the success of the Haikou (Hongxing) Foodstuff Plant in quickly putting an end to the passive situation in production has demonstrated that in the movement to increase production and practice economy, so long as we firmly grasp the improvement of product quality and increase the varieties of products, we will be able to secure outlets for our products, develop production and make a better future for our plants.

The article noted: The issues on product quality and variety are important parts of the movement to increase production and practice economy. Increasing production and practicing economy are closely linked with product quality. Product quality is the life of the products. If product quality is improved and if the products are marketable, we will be able to develop production and score outstanding achievements in increasing production and practicing economy. If product quality is poor and the products are rejected by the masses and piled up, the products are but a stack of scrap even though the output may be very high. Therefore, poor product quality amounts to the greatest waste. If product quality is improved, the consumption of raw materials reduced and the quantity of scrap cut down, we shall achieve the greatest economy.

Since the activities on "quality month" were launched last year, the staff and workers on Hainan region's industry and communications front have further established the idea of "quality first." Many units have substantiated and strengthened their product quality control organs, established product quality inspection systems and strengthened their quality control work. They have made improvements in the quality of their products. On

the whole, however, we have not scored very outstanding achievements. At present the quality of quite a number of products has not yet been recovered to their best previous levels. The discrepancies are even greater when they are compared to the advanced levels of Guangdong and all of China. The problem of product quality has become an outstanding one in Hainan region's industrial production. It brooks no delay and we must have great determination and make efforts to solve it.

The article notes further: To quickly improve product quality, the leadership must have strong revolutionary dedication and sense of responsibility. An important reason that the product quality of some enterprises has remained unchanged is that the leaders have done nothing and they have a lack of revolutionary determination. We must have high revolutionary dedication and sense of responsibility, solve all problems in a soundly based way and quickly improve product quality.

Improving product quality involves the entire production process. From the design of products, specifications of technical skills, operating procedures, technical facilities, inspection criteria to the marketing of products, each of the links is concerned with product quality. Therefore, we must seriously do well in grasping comprehensive quality control work and eliminate the substandard products within the production process.

The work of improving product quality also involves all the staff and workers of the enterprises. We must conduct ideological education for the staff and workers on "quality first" and enhance the sense of responsibility of all the staff and workers, allowing them all to pay attention to and grasp improving product quality and contribute their efforts to this improvement.

To improve product quality, we must also rely on the close coordination of all departments. The departments concerned must create the necessary conditions for various plants in improving product quality.

CSO: 4006

LIGHT INDUSTRY

SHANGHAI PAPER URGES MORE POWER FOR LIGHT, TEXTILE INDUSTRIES

Shanghai City Service in Mandarin 2300 GMT 14 Jul 79 OW

[Report on JIEFANG RIBAO 15 July article: "It Is Necessary To Give Light and Textile Industries Access to Electric Power"]

[Text] The article says: While gathering information recently in some light and textile enterprises, this reporter learned of a situation in the Shanghai No 20 knitwear plant. In 1965 the plant's cotton dyeing workshop set its electricity consumption quota at 100 kwt and its daily output of dyed cloth was 3,000 kg. In 1978 the daily output of dyed cloth was doubled to 6,000 kg. But the department concerned still limited the workshop's power consumption quota to 100 kwt because power supplies had reached their capacity. As production increased, it was only natural that this workshop consumed more power than was allotted and was eventually ordered to stop production for a day which resulted in a loss of more than 500,000 yuan in terms of output value for the plant. Similar situations of acute power shortages are common among other light and textile enterprises.

The light and textile industries are expected to make faster progress as dictated by the principle of readjusting, restructuring, consolidating and improving the national economy. Although the departments concerned have made great efforts to insure power supplies for the development of light and textile industries, the power shortage still remains acute in the related enterprises. What kind of measures are effective in solving this problem? Comrades of departments concerned and enterprises told this reporter that the state should accelerate the construction of power stations. In addition, electric power departments should follow the principle of overall arrangements and try their best to squeeze electricity from other departments for use in light and textile industries. Light and textile enterprises whose products are in great demand at home and abroad should enjoy priority in obtaining sufficient power supplies.

The article adds: One kWh of electricity used in the metallurgical and chemical industries yields an output value of a little more than 2 yuan, but it yields 7 to 8 yuan if used in the light and textile industries.

Therefore, all trades and professions should tap their potentials, reduce power consumption and allocate some electricity to support light and textile industries. By squeezing out a little more electricity, heavy industrial enterprises and big users of electricity can help tremendously in lessening the acute power shortage in light and textile enterprises and thus yield greater economic results.

The article also points out that while it is necessary for all trades and professions to support light and textile industries, the latter should exercise care in the use of electric power.

CSO: 4006

LIGHT INDUSTRY

VICE MINISTER OF LIGHT INDUSTRY CITES GOALS AND ACHIEVEMENTS

Hong Kong ZHONGGUO XINWEN in Chinese 21 Jun 79 p 1

[Article: "Vice Minister of Light Industry Du Ziduan (2659 1311 5683) Speaks on How To Advance Rapidly During Readjustment"]

[Text] Vice Minister of Light Industry Du Ziduan, speaking on how to promote light industry as rapidly as possible, indicated that in a period of readjustment speeding up light industry depends principally on tapping latent potentialities, renewing, and revising old enterprises, and on giving full play to the employment of presently existing enterprises. With respect to readjusting proportional relations in the national economy, we must quicken the development of light industry and thoroughly alter the serious imbalance between light and heavy industry. Because of the great number of light industrial businesses, with products numbering in the thousands, we must establish new, larger-scale, modernized enterprises as the backbone, greatly increase the production capacity of paper, sugar, salt, synthetic detergent, synthetic leather, plastics and other industries, and also stress developing the production of various types of industrial wares for daily use. Further, we must introduce new techniques and new equipment from abroad in order to change the backward state of light industry.

These are the answers Du Ziduan gave to questions from a GONGREN RIBAO reporter regarding how to implement plans for readjusting the national economy and quickening the development of light industry. Today's issue of GONGREN RIBAO published Vice Minister Du's responses under the headline, "How can light industry advance rapidly during readjustment?"

Replying to the question, why emphasize the rapid advance of light industry during the readjustment of the national economy, Du Ziduan said that, aside from the fact that light industry is a "short leg" and that we need balanced readjustment and coordinated development, there are other reasons. Firstly, investments in light industry are minimal, results are rapid, and as light industry develops, accumulations will grow and exports expand; we can "use light industry to nourish heavy industry" and "use rapid returns to nourish slow returns." In the long view, with this method, the development of heavy industry will not only not be slow, it will accelerate. Secondly, as light

industry increases and the people's needs for clothing, food, housing and consumer goods are well met, we can further mobilize the enthusiasm of the great masses to speed up the realization of the Four Modernizations. Thirdly, because light industry and agriculture are so closely linked, by quickening the development of light industry, we can better support agriculture, accelerating the development of agricultural production and solidifying the union of industry and agriculture. Fourthly, as light industry enterprises increase, production teams grow, and work opportunities swell, light industry will develop; we can expand total employment and make better use of our country's rich labor resources.

Answering questions on whether new light industrial products will be on the market this year, Du Ziduan said that already this year we have taken the improvement of product quality, the increase of variety in produce designs and colors, and the renewal and replacement of products as the chief tasks in shifting the emphasis of work. The Shanghai light industry bureau has decided to lay stress this year on attaining 200,000 units each of small-sized women's watches, calendar watches, small-wheeled bicycles, new-style sewing machines and pressurized thermos bottles, and on carrying out an upgrading of a host of other products. The first and second light industry bureaus in Beijing plan to initiate before National Day [1 October] the production of 55 new products, including automatic wristwatches, semi-automatic clothes washers, and drafting machines. The light industry bureau of Tianjin during the first quarter of this year has already put into production a third generation of electric wristwatches, 26 varieties of newly designed bicycles, and a dozen other new products. Eight cities in Liaoning Province, including Luda and Anshan, have now begun production of calendar watches, five-purpose sewing machines, and ceramic fry-pots--some 30 products in all. And Hunan Province has test-produced 250 new product varieties during the first quarter of this year. With each locality enthusiastically implementing its plans, by National Day there will be a large batch of new products and new product varieties on the market.

CSO: 4006

LIGHT INDUSTRY

BEIJING ELECTRONIC INSTRUMENT INDUSTRY REORGANIZED

Beijing BEIJING RIBAO in Chinese 11 May 79 p 1

[XINHUA dispatch 10 May: "Beijing Electronic Instrument Industry Made Adjustments With Success"]

[Text] Our staff reporter Yu Huiyin [0151 6540 7299] reports: Acting according to economic laws, the Beijing Municipal Bureau of Electronic Instrument Industry has, from the end of last year, taken the initiative to carry out a readjustment within the jurisdiction of the bureau, combined or reorganized those factories which were redundant in production or turned out products out of date and having no market, expanded the production of those factories which could meet the demands of the market, and tried to satisfy the requirements of the society.

From the initial adjustment in the first quarter, the bureau combined or reorganized 20 factories, spared factory buildings, equipment and personnel for the development of new products and products in great demand but short of supply, or set up research centers and technical schools, and gained very fine results.

This readjustment helped those factories in urgent need of expansion to gain replenishment in manpower and material resources. Formerly, there were too many factories and workshops producing radio receivers. On this occasion, six factories were reorganized into four factories, 20 percent of their personnel were transferred to other factories. A radio factory and two other factories were amalgamated into two TV receiver factories which could not meet the demand of the market. These two TV factories increased their personnel and expanded their workshops. In the first quarter of this year, they increased their output by 1.8 times as compared with the same period of last year. Another radio factory was combined into Beijing Radio Plant which had a strong technical force, turned out products of fine quality and expected to make further development.

The plant established a new workshop with the reinforcement of manpower and additional equipment, and began to accept orders from abroad for processing imported materials and producing radio recorders.

In the past, there were three factories in Beijing producing small electrolytic condensers. There was more supply than demand of their products which were accumulated in stock. Meanwhile, the government was in urgent need of large electrolytic condensers which were produced by only one factory. After the present readjustment, these three factories were combined into two factories, one to make only small condensers by reducing its productive capacity, the other to make large electrolytic condensers. The output of large condensers has increased quickly. Among radio parts, plugs and connectors were short of supply in the municipality, both their variety and output ran far too short to meet the demand. During the readjustment, two factories making out-of-date parts were amalgamated into Beijing Municipal Radio Connectors Plant. This plant received this great reinforcement, began to trial make 11 new varieties of connectors and, at the same time, made effort to fulfilled contracted tasks for existing products ahead of schedule, so that they could spare time and energy to produce new products in urgent need.

While a number of factories were amalgamated and reorganized, the Bureau of Electronic Instrument Industry made plans to take a specialized electroplating plant as the center and gradually concentrate all small electroplating workshops in the city, so that problems of scattered operation, poor efficiency and serious pollution could be solved. As a first step, at present 11 workshops situated in residential quarters have been closed down.

These adjustments not only contribute to the development of production but also help to train technical workers. The number of technical personnel of the industrial system under the bureau constitutes only 4.5 percent of the total number of staff members and workers of the system, far below the requirements for the development of production. Recently, the bureau in cooperation with some colleges set up a branch college and a number of new specialized middle schools in buildings vacated by the amalgamation of some factories, and also made preparations to build a new research and experimental center. With training classes already in operation, at present the system has 1,800 full-time and 2,000 part-time students in colleges.

Beijing is one of the important bases of electronic instrument industry in our country. Since the founding of new China, this industry has made great progress.

The industry now has 164 factories and enterprises. However, the protracted sabotage of national economy by Lin Biao and the "gang of four" brought about the situation that these factories were placed separately in the past under the leadership of several industrial bureaus and city wards. The administration was scattered. It was not possible to make unified plans for production and management. There was confusion in general arrangements and imbalance in production. All factories tried to make the same simple products which were kept in stock for a long time. Nobody made articles of complicated technology which were in great demand. Some factories were not working in full capacity and had nothing to do for several months in a year. Other factories were in urgent need of expansion but could not develop quickly because of restrictions of manpower, factory space and other conditions.

Last year, reorganization took place among industrial departments in Beijing Municipality. All factories under city wards were transferred to the municipal government and placed under the unified leadership of municipal industrial bureaus concerned. All the 164 electronic instrument industrial enterprises were placed under the administration of Beijing Municipal Bureau of Electronic Instrument Industry. The bureau set up eight industrial companies according to their respective trades, and exercised its centralized and unified leadership over these factories. After the reorganization, contradictions of imbalance were exposed. Take the radio parts company as an example. Among the 256 varieties of parts made by the company, the production of 25 varieties far surpassed their sales, constituting one half of the total output of parts of the trade, the output of 38 varieties of parts could not meet the demand of the market, constituting 15 percent of the total output of radio parts.

From the findings of its investigation, the bureau realized profoundly that only by resolutely carrying out readjustments and putting the production of electronic instruments on the track of planned and proportionate development, could we advance with big strides toward the goal of the four modernizations.

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CSO: 4006

LIGHT INDUSTRY

BRIEFS

JILIN LIGHT INDUSTRY PRODUCTION--The Jilin Municipal No 1 light industry bureau in Jilin Province overfulfilled all its monthly production plans from January to May. The profit earned during this period exceeded the target by 17.2 percent. [Changchun Jilin Provincial Service in Mandarin 2200 GMT 22 Jun 79 SK]

SIPING INDUSTRIAL PRODUCTION--Siping municipality, Jilin Province, overfulfilled all monthly industrial production plans from January to May. Total output value during this period was 17.6 percent higher than the corresponding period last year and was 7.8 percent above the target set by the state. [Changchun Jilin Provincial Service in Mandarin 2200 GMT 22 Jun 79 SK]

LIAONING LOCAL ENTERPRISES--Communes and production brigades in Chifeng County, Liaoning Province, established a number of enterprises exploiting local resources. These enterprises include brick and tile plants, cement plants, quarries, machine shops and those of the service trades. The total output value of these enterprises in 1978 amounted to 1.36 million yuan. [Shenyang Liaoning Provincial Service in Mandarin 2300 GMT 26 Jun 79 SK]

CSO: 4006

CAPITAL CONSTRUCTION

BRIEFS

SHANDONG GYMNASIUM--The Shandong gymnasium was completed recently in Jinan municipality. This gymnasium, the largest of its kind in Shandong, is 78.34 meters long, 70.2 meters wide and 26.15 meters high, and can accommodate as many as 8,000 spectators. The gymnasium was put to use on 10 June. [Jinan Shandong Provincial Service in Mandarin 2300 GMT 15 Jun 79 SK]

POWER TO JILIN PROVINCE--A newly built 220,000 volt, 209.7 kilometer extra high tension feeder extending from Siping to Tongliao, so far the longest in Jilin Province, was started in early 1978 and put into operation on 1 June. [Changchun Jilin Provincial Service in Mandarin 1100 GMT 6 Jun 79]

CSO: 4006

DOMESTIC TRADE

ROLE OF SUPPLY-MARKETING COOPERATIVES EXAMINED

Beijing XINHUA in English 0831 GMT 7 Jul 79 OW

[Text] Beijing, July 7 (XINHUA)--China's rural supply and marketing cooperatives and their agencies send to the countryside every year tens of millions of tons of chemical fertiliser, several hundred million pieces of medium-sized and small farm implements and large quantities of other capital and consumer goods. In return, they buy agricultural and sideline products from the rural communes and commune members.

The supply and marketing co-ops have become an important bond, linking the state socialist economy with the rural socialist collective economy and linking town and countryside. They promote the interflow of goods and help boost the rural economy.

The supply and marketing co-ops and other trading organizations bought 20.7 percent more agricultural and sideline products from the countryside from January to May 1979 compared with the same period of last year. China reaped a good harvest in 1978 and the state has adopted measures to encourage greater production from the rural communes and their subdivisions. State purchases of pork, poultry and eggs have shown marked increases this year, with more pigs and poultry being raised.

In the first 5 months of this year, capital and consumer goods supplied by the co-ops to countryside rose 8.5 and 14.2 percent respectively, compared with the same period of last year. Bicycles, wristwatches, sewing machines and transistor radios are all in heavy demand.

Consumer co-ops were set up in China's liberated areas back in the early thirties. During the period of the civil war, the anti-Japanese war and the war of liberation, the co-ops helped to protect the peasantry from the exploitation of capitalist commerce, to ensure the supply of goods for the army and people in the liberated areas, and to thwart the enemy's economic blockade. In the early post-liberation period, they helped to reduce and end exploitation of capitalist commerce in the countryside and stabilize commodity prices, aiding the recovery of the national economy.

In all, there are in the countryside 36,000 supply and marketing co-ops at grassroots level, which means that there are co-ops at the sites of the headquarters of most of the people's communes. The rural supply and marketing co-ops have 100,000 branches, and in addition, have production brigades operating 430,000 agencies on their behalf.

The co-ops helped merchants and peddlers of the old society form some 40,000 cooperative shops or groups, which take the differences between the wholesale and retail prices as their income and serve as an important supplement to the other trading organizations. Peasants are now able to buy almost all their essential goods at local co-ops, found in all larger villages or at the centre of several small villages.

The co-ops have gradually narrowed the big gap that used to exist between the prices of industrial and agricultural goods caused by foreign and Chinese capitalism in semi-feudal and semi-colonial China which had the effect of setting town against countryside.

The state has lowered prices for industrial goods many times and has brought in steady increases in the purchase prices of agricultural products. Retail prices for food grains, however, have remained stable, in order to keep the costs of living low.

The average purchase prices of agricultural and sideline products in 1978 was double the figures in the early post-liberation period, and the differences between industrial and agricultural goods were narrowed by 50 per cent. Peasants who sold the same quantity of agricultural products in 1978 and in 1950 would today be able to buy double the quantity of industrial goods with the money than he would have done in 1950.

The state purchase prices for agricultural and sideline products were further raised this year.

The co-ops have also, in line with the state price policy, reduced the differences between commodity prices in different parts of the country. In old China, communications and transport facilities were extremely poor. Goods were transported by private merchants from the coastal cities, the centres of industry and commerce, to the remote inland areas and sold to the peasants and herdsmen there at extortionate prices. The merchant's reaped huge profits by buying their produce at unfair, low prices.

With the setting up and extension of the state trading network and the improvement of communications and transport since the founding of new China, the differences between the market prices of industrial goods in coastal and inland areas have been reduced. Commodities such as chemical fertilizer, Western medicine, table salt, matches, books, journals and other publications, now sell at standard prices throughout the country. The state purchase prices for many agricultural products have become roughly the same in the major producing areas.

The supply and marketing co-ops help to keep the communes and brigades informed of the needs of the state and the people and also with starting sidelines that suit local natural conditions. The co-ops in Jiangsu Province shipped in from other parts of the country fruit tree saplings and bamboo shoots and now northern Jiangsu Province is growing bamboo for the first time and large tracts of land in southern Jiangsu are covered with date and apple trees. So far, 24 counties in the province have set up commodity bases for growing fruit, tea, bamboo, reeds and other crops.

Profits earned by the supply and marketing co-ops are delivered to the state, but they also keep parts of them to themselves. From their earnings, the co-ops set aside funds to help people's communes and their subdivisions expand their sidelines. Nearly 100 million yuan was granted by the co-ops for such purpose a year. Moreover, the co-ops will make advance payments, in general up to 10 and 15 percent of purchase prices, to collectives or individuals that are short of production funds. The co-ops also provide technical literature, introduce production techniques and help to circulate other information among the communes.

The co-ops help to oversee village fairs and see that there is no speculation and profiteering there. They help to grade livestock and timber and to fix prices, and levy taxes on goods sold according to state regulations.

CSO: 4020

DOMESTIC TRADE

NEW INDUSTRIAL TOWNS RISE IN RURAL COMMUNES IN SHANDONG

Beijing XINHUA in English 1210 GMT 10 Jul 79 OW

[Text] Jinan, July 10 (XINHUA)--Small industrial towns are growing up at the headquarters of all rural people's communes in Yantai Prefecture on the Shandong Peninsula.

The pattern follows the growth of agriculture and industry in the prefecture's 273 communes which have an average of over 5,000 families and 28,000 inhabitants each. The communes and their 10,030 production brigades have set up 40,000 small factories and workshops. The total annual output value of these factories and workshops accounts for 42 percent of the annual income of the communes and their subdivisions. Most of these enterprises are clustered together in the commune towns and in the still smaller townships of production brigades.

Some 72,000 men and women peasants work at the commune- and brigade-run shops, accounting for nearly one-fifth of the prefecture's labour force. Most of them live in surrounding villages and work in towns and townships only a few kilometres away.

The communes in Yantai Prefecture began to set up small factories and enterprises in 1958. The enterprises have grown rapidly since the early 70's and now manufacture everything from agricultural machinery and spare parts, to chemical fertilizers and pesticides, building materials, consumer goods and handicrafts.

The headquarters of Sunjiatan People's Commune on the outskirts of the seaport of Weihai City is one site of a new industrial town. The town has a population of four thousand. Its 20-metre wide streets are lined by 11 commune-run enterprises, including a fish processing plant, a fishing net factory and a tractor repair plant, which employ a total of 1,600 people. The town has middle and primary schools, stores, a clinic, a supply and marketing cooperative and a credit cooperative. There are also a hotel, a restaurant, a public bath, a cinema, a day-care centre and a kindergarten.

The new towns have become commercial and educational as well as industrial centres. Every morning, peasants from surrounding villages bring vegetables, meat, eggs and other farm and sideline products to the towns for sale at market fairs, and in return they buy manufactured goods. The total value of transactions at rural fairs in the prefecture reached 260 million yuan in the first half of this year, 20 percent higher than in the same period of last year.

Most children in the prefecture study at the towns and townships up to junior middle school level. Most of the tens of thousands of agricultural technicians in the prefecture are graduates from schools in the towns. It is also in the towns that the communes convene most of their meetings and sponsor training classes for their cadres.

Most clinics in the towns have both out-patient and in-patient departments, and the clinicians include experienced doctors. The clinics are responsible for training barefoot doctors for production brigades and the doctors often make rounds in local villages.

The communes have a well-developed communications system. In June this year, wheat plants in the prefecture were found to be contaminated by rust and other disease. The broadcasting stations at commune headquarters immediately circulated the information. The production teams in all parts of the prefecture sprayed pesticides and took other measures to prevent the spread of the diseases. Forecasts of changes of weather are also issued through the broadcasting centres at the towns to all parts of the prefecture.

During the busy farming season, workers in the towns go to the countryside to help repair farm tools and to teach technical know-how to farm machine operators, in the slack farming season, some of the peasants join in the less technical work in the workshops. This type of exchange will help reduce the differences between town and countryside and between worker and peasant.

CSO: 4020

TRANSPORTATION

BRIEFS

DALIAN PORT WORK QUOTA--Dalian Port in Liaoning Province prefulfilled its January-June work quota by 11 days, with the volume of cargo handled 21 percent above that during the same period last year. [Shenyang Liaoning Provincial Service in Mandarin 1100 GMT 25 Jun 79 SK]

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